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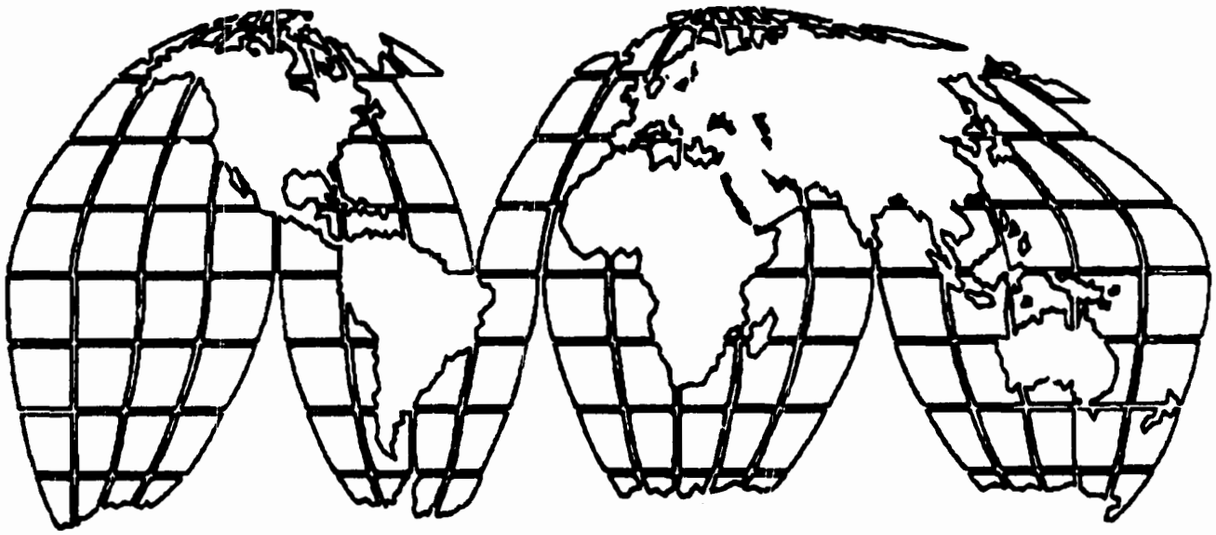
Export Promotion and Investment Promotion: Sustainability and Effective Service Delivery Volume 2: Annexes



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Export Promotion and Investment Promotion: Sustainability and Effective Service Delivery

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LIST OF ACRONYMS

A.I.D.	- U.S. Agency for International Development
APHIS	- Agricultural Post-Harvest Inspection System
ASI	- A.I.D.-Supported Institution
BABCO	- Belize Agribusiness Company
BEIPU	- Belize Export and Investment Promotion Unit
CAAP	- Private Agricultural and Agro-Industrial Council (Costa Rica)
CAEM	- Cámara Empresarial de Guatemala (Business Chamber of Guatemala)
CATCO	- Caribbean Agricultural Trading Company
CBERA	- Caribbean Basin Economic Recovery Act
CBI	- Caribbean Basin Initiative
CENPRO	- Centro de Promoción de Exportaciones y Inversiones (Center for Export and Investment Promotion) [Costa Rica]
CEDOPEX	- Centro Dominicano de Promoción de Exportaciones (Center for Export Promotion)
CINDE/PIE	- Coalición de Iniciativas de Desarrollo--Programa de Inversiones y Exportaciones (Coalition of Development Initiatives--Program for Investment and Export Promotion) [Costa Rica]
CORFO	- Corporación de Fomento (Development Corporation) [Chile]
ECIPS	- Eastern Caribbean Investment Promotion Service
EPA	- Environmental Protection Agency
EPZ	- export processing zone
FDA	- Food and Drug Administration
FEPROEXAAH	- Federación de Productores y Exportadores Agriculturales y Agro-industriales (Federation of Agricultural and Agro-Industrial Producers)

LIST OF ACRONYMS (contd)

FIDE	- Fundación para la Investigación y Desarrollo Empresarial (Foundation for Entrepreneurial Research and Development)
FUSADES	- Fundación Salvadoreña para Desarrollo y Estudios Económicos (Salvadoran Foundation for Development and Economic Studies)
GEXPRONT	- Gremial de Exportadores de Productos No Tradicionales (Guild of Exporters of Nontraditional Products) [Guatemala]
GOC	- Government of Chile
GOCR	- Government of Costa Rica
GODR	- Government of the Dominican Republic
GOG	- Government of Guatemala
GOH	- Government of Honduras
HIAMP	- High Impact Agricultural Marketing and Production Project (Eastern Caribbean Region)
ICP	- Investment Council of Panama
IPC	- Investment Promotion Council
JACC	- Junta Agroempresarial de Cooperación y Coinversión (Council for Agribusiness Cooperation and Joint Ventures)
JAMPRO	- Jamaican Promotion Organization
NTAE	- nontraditional agricultural exports
NTE	- nontraditional exports
PDAP	- Project Development Assistance Program (Eastern Caribbean Region)
PROEXAG	- Proyecto Apoyo a la Exportación de Productos Agrícolas No Tradicionales de Centroamerica y Panamá (Support Project for Exporting Nontraditional Agricultural Products in Central America and Panama)

LIST OF ACRONYMS (contd)

PROMINEX	- Centre de Promotion des Investissements et des Exportations (Investment and Export Promotion Center)
ROCAP	- A.I.D. Regional Office/Central America and Panama
USAID	- A.I.D. Country Mission

ANNEX A

INTRODUCTION AND METHODOLOGY

1. INTRODUCTION

1.1 Overview of Central Issues for Investment and Export Promotion

Institutions promoting export and investment have received extensive assistance from A.I.D. over the past 10 years, particularly in the Caribbean Basin (the CBI region), where assistance has reached a quarter of a billion dollars in current terms. Support to these institutions has been a focal point of A.I.D.'s private sector assistance strategy not only in the CBI region, but worldwide. As A.I.D.'s trade and investment portfolio expands and matures, an increasing number of missions must decide whether to continue funding these institutions or whether to add such assistance to their programs.

Three issues are central to this decision:

1. Do these institutions have an impact on the firms they assist?

2. Do they have an impact on exports and foreign investment at the national level?

3. Is support to these institutions economically attractive and cost-effective?

This report seeks to assist A.I.D. managers with this decision by answering these questions. It assesses experience with A.I.D.-supported institutions (ASIs) for export and investment promotion in the CBI region, but the findings are expected to be of use and interest to A.I.D. missions worldwide.

1.2 Key Questions Raised by the Issues

The study seeks to address five questions that are key to the issues identified above:

1. What has been the export performance of the three case study countries where the ASIs studied are located--Costa Rica, the Dominican Republic, and Guatemala--and what role have macroeconomic policies played in contributing to this performance?

2. What assistance strategy has been pursued by each of the promotional institutions, and how has this strategy been translated into a mix of direct services to firms and other activities?

3. What services have been used by firms, and have these services had an impact?

4. Are these programs sustainable, with or without continued A.I.D. support?

5. Have these programs generated economic benefits sufficient to justify A.I.D.'s investment?

Each of the five issues papers that follow (Annexes B-F) focuses on one of these questions. The final issues paper (Annex G) draws on the findings in each area to summarize the implications for A.I.D. programming and to define assistance strategies that both offer high impact in relation to the expenditure required and are sustainable.

The report focuses in particular on seven institutions that have received substantial levels of A.I.D. assistance, have operated in countries with a comparatively favorable environment for investment and export, and have accumulated sufficient experience to permit an assessment of their program and its impact on exports, investment, and employment growth. These institutions include both established organizations and institutions whose establishment was directly related to A.I.D. sponsorship and funding (for more detailed descriptions, see the institutional descriptions attached at the end of the Annex). The institutions are as follows:

-- CENPRO, a public sector promotional unit in Costa Rica targeting both local firms and foreign investors;

-- CINDE/PIE, an A.I.D.-sponsored private entity in Costa Rica targeting primarily foreign investors in the manufacturing sector;

-- CINDE/CAAP, an A.I.D.-sponsored private entity in Costa Rica targeting local and foreign agricultural firms;

-- GEXPRONT, an established membership organization in Guatemala targeting primarily local firms in the manufacturing and agricultural sectors;

-- IPC, an A.I.D.-sponsored private entity in the Dominican Republic targeting primarily foreign investors in the manufacturing sector;

-- JACC, an A.I.D.-sponsored membership organization in the Dominican Republic targeting primarily local firms in the agricultural sector; and

-- PROEXAG, an independent project implementation unit operating in Central America and targeting local and foreign agricultural firms in the Central American region.

The programs offered by these institutions are analyzed primarily through a survey addressing the services offered to client firms. This emphasis on the services used by firms is central to the study's methodology. It does not by any means exclude consideration of the institutions' programs in other areas, such as lobbying, but these programs receive much less attention in the study. In general, this study does not seek to answer either of the following questions:

-- What types of A.I.D. assistance or other factors are most effective in bringing about policy reforms that favor investment and exports?

-- What are the main determinants of U.S. firms' decisions to invest in specific developing countries, and how can A.I.D. most effectively increase the number of firms that do so?

The rationale for the decision to focus on services is three-fold. First, the direct support services provided to the firms lie at the heart of the promotional programs studied. Second, a service-oriented focus provided the best vehicle for extracting information from the firms on their use of the promotional institutions and the benefit they derived. The survey could thus be designed in a way that encouraged the firms to provide information on alternative sources for the services used, permitting a better measure of the impact of the services supported by A.I.D.

Finally, a focus on services offered greater promise of supporting firm conclusions, compared with an attempt to analyze the full range of activities of the promotional institutions. The study was designed to focus on promotional institutions, not on the full range of institutions supported by A.I.D., much less on non-project assistance. An attempt to determine the impact of the promotional institutions on other areas to which they have been only one of several contributors would necessarily have required the study to encompass a much broader range of institutions and programs than was feasible with the resources provided.

The service focus therefore reduces the emphasis to two other areas in which the promotional institutions have been

active: (1) policy and (2) general promotion of the country and its exports. Activities in both areas are discussed briefly, but no attempt is made to assess their impact beyond that on the firms that received direct services. For example, CINDE/PIE has advertised the desirability of investing in Costa Rica in trade journals and other media. It could be argued that U.S. firms may have decided to invest in Costa Rica and proceeded to do so entirely on the strength of these advertisements (and therefore would tend not to be represented in the survey of assisted firms, although they might be found among the unassisted sample). Conversely, it could be argued that firms that decided to consider Costa Rica on the basis of the advertisements (if any) ultimately received other services from CINDE, such as site visit support, and therefore appeared in the survey.

In any case, the study included the cost of general promotional activities, which have generally been incorporated into the information service category, but has not attempted to measure their impact beyond what was represented in the survey of assisted firms.

Several important distinctions run through the methodology used to answer each of these questions:

-- Are there important differences between agricultural and manufacturing firms?

-- Are there important differences between export promotion programs (targeting local firms) and investment promotion programs (targeting foreign investors)?

-- Are there important differences across countries at different stages of development?

To broaden the scope of information available to answer these questions, promotional institutions in Chile were added to the study, including two public sector institutions (ProChile and Corfo) and a private entity (Fundación Chile).

The remainder of this annex discusses the methodology used in the study in more detail. Section 2 describes the methodologies used for designing the survey instrument and selecting samples. Section 3 then briefly discusses the overall approach taken in each of the five areas identified in Section 1.2.

2. METHODOLOGY

This study was carried out by a team of nine people, using approximately 20 person-months of effort over a period of about

five months. The study was designed to draw principally on field-based data provided by promotional institutions and directly from exporters and investors. Six team members were responsible for carrying out field surveys. The remaining team members worked in Washington, D.C., completing telephone surveys and compiling field data into a centralized database.

The team completed four field surveys, in Costa Rica, Guatemala, the Dominican Republic, and Chile. Two-person teams spent approximately one month in each country. Field study data were supplemented with data from semi-structured telephone interviews with A.I.D. managers, foreign investors, and local exporters in other LAC countries including Barbados, Belize, El Salvador, Honduras, and Jamaica.

Three countries selected for the field surveys, (Costa Rica, the Dominican Republic and Guatemala) met the following criteria:

-- Each had at least one A.I.D. project that was considered to be successful. These included CINDE/PIE in Costa Rica, the Investment Promotion Council in the Dominican Republic, and PROEXAG based in Guatemala.

-- Each had two or more investment promotion and export promotion programs covering the agriculture and industrial sectors. This provided sufficient data for comparative analysis.

-- Each had an A.I.D. mission that supported the study.

The fourth country, Chile, was included in the survey as a "control" country. A.I.D. wanted to examine (1) a trade and investment program in a non-A.I.D. country site that has experienced significant success in nontraditional exports both in the agricultural sector and selected industries and (2) promotional institutions that have not received A.I.D. assistance.

2.1 Survey Methodology

Before conducting field visits, the team designed a survey instrument and pretested it in Costa Rica. The survey instrument posed questions that could be used in the target countries in four different areas:

1. Basic Background Information. This section asked general questions about the firm's line of business, the year it started exporting, whether it was local or foreign owned.

2. Services Received. This category requested data on the use, level of impact, and importance of 32 different services. The services were grouped into five general categories: information, private sector contacts and referrals, investment/export promotion services, technical assistance/training, and government facilitation. (For a detailed description of the services, see the glossary at the end of this annex).

3. Exports and Employment Data. An important objective was to determine the growth performance of surveyed firms. This was important for comparing data against institutional claims of economic impact (e.g., number of jobs generated, exports) as well as for comparing the success of assisted and unassisted firms. Specific questions focused on growth of exports, growth of employment, and estimated net foreign exchange earnings of export sales.

4. Institutional Impact. This section collected information on the impact of both A.I.D.-supported and non-A.I.D. institutions on a firm's decision to invest, export or increase exports; firms were asked to identify the overall importance of country climate, private sector services, and A.I.D.-supported institutions.

The questionnaire included a total of about 25 questions (a copy of the questionnaire is included at the end of this annex). On average, each interview took approximately 30 to 60 minutes to complete. Answers from the survey were coded and entered into a database for statistical analysis.

2.2 General Sampling Methodology

The sample of firms selected for the survey is considered to be representative, although time and resource limitations made it impractical to construct a fully random sample. For each country target levels were set for each of four sample populations of interest--assisted and unassisted manufacturing and agricultural firms. The sample was weighted to ensure that 75 percent of the sample were beneficiaries of A.I.D.-supported promotion institutions and 25 percent were unassisted firms. The sample was also weighted to account for two other factors: (1) the added value of nontraditional exports in both the agricultural and industrial sectors and (2) the level and distribution of A.I.D. financing in agriculture and industry.

The target sample group for each country was 50 firms--34 assisted and 16 unassisted. The sample group was limited to

agribusiness and light manufacturing (e.g., electronics, textiles). The distribution between manufacturing and agribusiness firms reflected the value-added distribution by sector and level of A.I.D. assistance. The approximate sectoral breakdown by country is given in Table A-1.

Table A-1. Sectoral Breakdown of Survey Sample

Country	Manufacturing (percent)	Agribusiness (percent)
Costa Rica	75	25
Dominican Republic	60	40
Guatemala	40	60
Chile	40	60

Source: Consultant survey.

The study universe included all assisted firms identified by the promotional organizations and unassisted firms taken from lists compiled by chambers of commerce, export associations, or other independent groups (see Section 2.3 for a description of the sampling process). Because the samples taken were not considered representative of the population as a whole, we did not pool the data. Instead, separate analyses were carried out for each of the four underlying samples: assisted agricultural firms, unassisted agricultural firms, assisted manufacturing firms, and unassisted manufacturing firms.[1] The sample included both foreign and local firms. The only screening criterion was that all firms have at least 20 employees and at least one year of experience as exporters.

All the firms selected were drawn randomly from lists, with the following exceptions: (1) some firms were added if the randomly drawn sample did not have a good distribution of

[1]We prefer to use this procedure in developing a weighted average of the different samples for several reasons: (1) we have a very good sample of assisted firms and we do not wish to contaminate the findings by pooling data from unassisted firms; (2) we do not think the assisted firms and unassisted firms are drawn from the same population; and (3) we do not know the proportion of the total population of exporting firms that were assisted because we do not know the total population.

foreign-owned and local firms, and (2) single firms located in remote locations (i.e., no other firms were selected from the same region) were eliminated because of time constraints.

In our analysis of service impact we calculated confidence intervals.[2] We exclude all services that were not statistically different from the 0 to 90 percent confidence levels. Furthermore, analysis of sample averages, particularly for sales and export levels, included only firms that provided data. We did not impute any missing values.

2.3 In-Country Sample Selection: The Case of the Dominican Republic

The team tried to standardize sampling procedures across countries, sectors, and institutions. However, differences in the clientele groups of the various programs studied and, more important, differences in the availability of lists for unassisted firms led to a certain unavoidable degree of variation in the specific procedure used for each country. The experience in the Dominican Republic, discussed next, illustrates the general procedures used for all the countries as well as the difficulties encountered.

Before departing for the country, the team communicated the target sampling levels to the USAID mission and the two institutions to be studied. Once in the country, the team met with each group to explain the different sample populations further and gather suggestions on sources for the unassisted firms. Each institution was asked to assemble a list of firms that had received "substantial" or "sustained" assistance from the institution, as evidenced by a visit to the factory or office or other intensive assistance. The organizations were urged to provide a list that included as many firms as possible but excluded firms that had received only minor assistance (such as a set of brochures or a brief office consultation).

The IPC (an investment promotion agency) provided a list of foreign investments that they had worked with over the past two years. Lists of firms that had received earlier assistance were not available because of the lag in setting up an internal information system to maintain such data. Further discussions yielded a supplementary list of local contracting firms with which the IPC had also worked. JACC (an agricultural export promotion agency) provided lists of firms that had received assistance in its most important programs, based on diverse

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[2]See Annex D for a detailed discussion on the calculation of confidence intervals.

sources including the recollection of the technical staff and invoices for services rendered.

In both cases, the survey team assigned numbers to the firms on the lists and drew a sample from random numbers.[3] A somewhat larger sample than necessary was drawn to allow for drop-outs. These two samples provided the basis for the assisted firm sample. Despite the disruption of the team's work schedule by a general strike accompanying the presidential inauguration, this sample was adhered to fairly strictly.

At the same time, the team collected other lists of exporting firms. The two lists that were ultimately used to construct the sample of unassisted firms were

-- a list of free zone firms, which was culled to exclude firms established before 1980, provided by the IPC from National Free Zone Council sources, and

-- a list of local exporting firms that exported more than $100,000 in 1989, provided by the data center of CEDOPEX, a government agency.

The latter list included information on product category, thus enabling the team to identify agricultural firms, industrial firms, and others that were excluded. Approximately 60 firms in each were category on this list. The list, which was specially generated by the CEDOPEX data center for the team's use, was not available until the second week of the team's work, and a decision was made to proceed with the free zone firms instead of waiting until a single consolidated list could be assembled. The team attempted to ensure that the sample maintained a balance between firms inside and outside the free zones (both local and foreign investors are found in each area).

For all three unassisted lists (free zone firms, local agricultural firms, and local manufacturing firms), the same procedure was used as that for the assisted firms--the firms were numbered and selected using random numbers generated by the team.

The samples were adhered to strictly, with the exception of a few firms in remote free zones, which were excluded for logistic reasons, and agricultural firms identified only by the exporter's name that were believed to represent export agents rather than exporting firms. For both samples, a greater number of firms was drawn than needed, and replacements were made as

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[3]The random numbers were generated from the last two digits in a column of telephone numbers on a page selected at random from the Santo Domingo telephone book.

needed to reach the desired targets for each group within the study's limited time-frame.

2.4 Institutional Analysis

Besides the firm-level analysis, the study team also analyzed the strategies and financial resources of A.I.D.-supported institutions, and to a much more limited extent, promotional institutions in Chile. The institutions reviewed included CINDE/PIE, CINDE/CAAP, and CENPRO in Costa Rica; IPC and JACC in the Dominican Republic; PROEXAG and GEXPRONT in Guatemala; and ProChile, Fundación Chile, and CORFO in Chile.[4]

For each of the A.I.D.-supported institutions the field teams identified the types of services provided and financial resources expended by service category. In the case of the Chilean institutions, the level of analysis is not as detailed. Because the institutions in Chile do not receive funding from A.I.D., they were reluctant to share detailed financial information with the study team. (A description of each of the institutions is provided at the end of this annex.)

3. SYNTHESIS OF DATA

The original scope of work for the study envisioned the completion of four country reports and a synthesis report that summarized the major findings from the field surveys. Upon further discussion, however, it was decided that this format did not allow for sufficiently detailed and accessible comparative analysis.

In an effort to develop a more integrated discussion of issues considered important by A.I.D. managers, it was decided to concentrate on issues rather than countries. The principal areas of analysis presented in separate annexes that follow this annex are Overview of Export Performance and A.I.D. Support to Export Promotion (Annex B), Promotional Institutions/Projects and Services (Annex C), Service Use and Impact (Annex D), Sustainability of Promotional Services and Institutions (Annex E), and Cost-Benefit Analysis (Annex F).

Below are brief summaries of the overall approach taken in each of the annexes.

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[4]Source: Consultant survey.

3.1 Overview of Export Performance and A.I.D. Support to Export Promotion (Annex B)

This section is designed to prepare for the analysis of the promotional institutions and their impact on nontraditional exports. It reviews the export performance of the CBI region during the Caribbean Basin Initiative, that is, from 1983 to the present. It focuses particularly on the four case study countries and examines briefly the role that policies have played in promoting export and investment growth. It is beyond the scope of this paper to attempt to identify the determinants of export growth, therefore, the analysis in this section is limited to basic statistical techniques, such as calculation of subsectoral growth rates.

3.2 Promotional Institutions/Projects and Services (Annex C)

In this section is a brief overview of A.I.D. assistance to promotional institutions in the CBI region as an introduction to a more detailed discussion of the structure and service mix offered by each of the seven institutions studied in depth. The discussion draws on two techniques to compare the institutions studied: (1) comparison of the institutional strategies in terms of six key factors and (2) comparison of the mix of direct support services offered by the institutions and the resources allocated to each service area. This section is intended to describe the programs studied and to introduce the service categories that underlie the impact analysis in the next section.

3.3 Service Use and Impact (Annex D)

This section draws primarily on a survey of 152 agricultural and light manufacturing firms in the three CBI countries: 105 assisted by the promotional institutions and 47 drawn from the general population of exporting firms (referred to as "unassisted firms"). The samples were chosen randomly from, respectively, lists of assisted firms provided by the institutions and lists of exporters acquired from other sources. The survey was supplemented by administration of a similar questionnaire to 10 firms in Chile and by phone to 16 firms suggested by promotional institutions in Barbados, Belize, El Salvador, and Honduras. The survey included basic information on the firm (e.g., ownership), use of services and the impact attributed to each service, the firm's assessment of the impact of various sources of assistance, including the promotional institutions, and information on firm performance in terms of exports and employment. These data were analyzed statistically using several packages (Lotus and dBASE

III for tabulations and cross-tabulations, and TSP for regression and correlation analyses).

3.4 Sustainability of Promotional Services and Institutions (Annex E)

This section analyzes the sustainability of the programs supported, with emphasis on their financial sustainability. It examines the institutions' sources of funding, including current user charges, and examines the implications of alternative approaches to meet the cost of promotional programs for the health and longevity of the institutions.

3.5 Cost-Benefit Analysis (Annex F)

This section presents primarily a cost-benefit analysis of three of the promotional institutions (CINDE/PIE, IPC, and PROEXAG's program in Guatemala). The analysis was limited to them because the other institutions did not have sufficiently detailed measures of impact, in the form of a list of specific investments or exports attributable to their assistance. The cost-benefit analysis draws on the methodology developed by Warr, which measures benefits in terms of the difference between value added in financial terms and value-added in economic terms (shadow-pricing labor, other domestic inputs and services, and foreign exchange). For reasons discussed further in the cost-benefit analysis section, the benefits used for this analysis were limited to an estimate of the value of additional employment created. The cost-benefit analysis is supplemented by a discussion of cost-effectiveness measures to place the investment in the context of its impact on exports and growth at the national level.

In each of these annexes the reader is presented with a quantitative comparative analysis. These conclusions are then summarized in a less academic, more journalistic style in the synthesis report and Annex G. In this way it is hoped that the study strikes a balance in responding to those interested in quantitative, detailed analysis (provided in the annexes) and those more interested in capturing the principal conclusions (presented in the synthesis).

GLOSSARY OF SERVICE DEFINITIONS USED IN THE STUDY

Presented in this glossary is a brief description of each of the service categories, as defined in the study. An attempt was made to apply these definitions as strictly as possible across countries, institutions and individual companies, for purposes of the surveys and the collection of cost data from the institutions and projects.

1. INFORMATION

1.1. Printed Information--General. Information on the general investment or trade environment of the country, for example, costs, legal and regulatory framework, infrastructure.

1.2. Printed Information--Sector/Product Specific. Sector- or product-specific information, for example, cost data, technical journal articles. Some institutions receive technical journals, distribute copies of the contents page to interested members, and send the articles requested by members for a small fee.

1.3. In-Country Question and Answer. Brief telephone or office consultations.

1.4. Overseas Promotional Representation. Investment Promotion Offices (CINDE), commercial attachés (GEXPRONT), private consultants (IPC, PROEXAG).

1.5. Foreign Market Information. Printed or on-line information on market structure, prices, and so on.

1.6. (a) Other. General orientation/motivational information for new or potential exporters, for example, aspects of starting an export business (GEXPRONT insert in local newspaper).

(b) Other. Information gathering/marketing trips to foreign markets, for example, PROEXAG's asparagus, cut flowers, and berry tours.

2. PRIVATE CONTACT MAKING

2.1. Directories and Referrals. Directories or referrals for professional services (e.g., lawyers, accountants, translators) as well as exporters and importers. Qualifying directories such as the Blue Book and Red Book for fresh produce, or Standard & Poor's and Dun and Bradstreet.

2.2. Deal Making (Joint Venture). Active assistance in establishing joint ventures for investment.

2.3. Trade Fairs. Sponsorship, attendance, organization or a combination of local exporter's participation in local and foreign trade shows.

2.4. Buyer Contacts. Assistance in identifying, evaluating, and presenting buyers through publications, electronic databases, foreign buyer visits, marketing trips, and informal referrals from association members

2.5. Other. Deal Making (Trade Deals). Active assistance in putting together trade deals and keeping negotiations going.

3. INVESTMENT AND EXPORT SUPPORT SERVICES

3.1. Firm-specific Market Research. Market research conducted for specific clients, whether an individual company, a cooperative, or an association of producers and manufacturers. Does not include sector profiles done by institutions for strategic planning.

3.2. Support for Site Visits. Assistance to potential investors or buyers during site visits, for example, setting itinerary, arranging transport and translators.

3.3. Expatriate Facilitation. Assistance to investors in personal matters regarding relocation--finding housing, schools, and so on.

3.4. Legal Assistance. Outside legal assistance of any kind, including providing assistance to present appeals or mitigate actions under PACA (Perishable Agriculture Commodity Act).

3.5. Accounting Assistance. Outside accounting assistance of any kind, for example, external auditors.

3.6. Credit Assistance. Includes dissemination of information on local and foreign credit sources, assistance in obtaining credit and extension of credit.

3.7. Recruitment. Assistance in recruitment of personnel, including pre-screening and use of personnel data banks.

3.8. Feasibility Studies. Assistance in the preparation or financing of feasibility studies.

4. TECHNICAL ASSISTANCE AND TRAINING

4.1. Production/Processing. Coordination or direct provision of technical assistance in production, post-harvest handling and processing, including applied research and farm trials.

4.2. Marketing. Strictly defined as assistance in labeling, packaging, shipping and distribution of the product. Identification of and negotiation with potential buyers comes under "Buyer Contacts" (Section 2.4).

4.3. Management. Includes strategic management or entrepreneurial assistance to potential investor/exporters, as well as assistance to current exporters. Timely assistance to potential investors can save both time and money by helping the investor avoid a bad investment.

4.4. Training. Strictly defined as semi-formal or formal training, for example, seminars, workshops, courses, field days. In-house on-the-job training was excluded.

5. GOVERNMENTAL FACILITATION

5.1. One-Stop Shop. Centralized processing of paperwork related to either investment or export approvals.

5.2. Assistance in Processing Approvals/Paperwork. Assistance in processing paperwork related to investment or export incentives, and the ongoing operation of a business.

5.3. Governmental Contacts. Active assistance in setting up appointments with governmental agencies. Providing lists or names falls under "Directories and Referrals" (Section 2.1).

5.4. Customs Assistance. Assistance in resolving problems with the local Customs Service.

5.5. Lobbying/Policy Reform (national). Efforts to improve the legal and/or regulatory framework of the country, for example, exchange rates, levels of fiscal incentives, bureaucratic delays, transport rates.

5.6. Post-Investment Troubleshooting (with local government). Assistance to investors in relocation when a governmental office is involved such as getting work visas or importing household items.

5.7. (a) Other. Lobbying/Policy/Regulatory Reform (foreign). Lobbying with foreign governments for greater market access, for example, FDA (pesticide monitoring procedures), EPA (changes in procedures for registering pesticide use), the Agricultural Post-Harvest Inspection System (APHIS) (admissibility of tropical crops). Preparation for bilateral and multilateral trade negotiations such as quota negotiations with the United States.

(b) Other: USDA/APHIS Pre-Inspection Program. Preclearance of agricultural products for U.S. market in conjunction with USDA/APHIS. This program exists in the Dominican Republic and is administered by JACC on a fee basis.

COUNTRY AND INSTITUTIONAL CASE STUDIES

1. COSTA RICA

Since 1983 AID/Costa Rica (CR) has concentrated its institutional funding for nontraditional exports in the Costa Rican Coalition of Development Initiatives (CINDE). Since 1986 AID/CR has provided nearly $20 million to export and investment promotion institutions. Approximately 60 percent, or about $11.8 million, of this funding has gone to the CINDE/PIE (Investment Promotion). The budgets of CINDE programs are almost entirely dependent on A.I.D. funding.

Traditionally, CINDE has principally consisted of four related, but financially separate, programs: (1) PIE--Investment Promotion, (2) CAAP--Nontraditional Agricultural Development, (3) PROCAP--Training, and (4) CINDE-CENTRAL--Lobbying and Administrative Arm of the other CINDE programs. In 1989 a fifth program designed to assist local industrial producers--Impulso Industrial--started operations. Beginning in January 1990, all four of these programs were consolidated into three divisions: Marketing (PIE), Agricultural (CAAP), and Industrial (PROCAP and Impulso Industrial). The three divisions are housed and financed through one institutional structure.

This study primarily focuses on the operations of PIE (referred to as CINDE/PIE) and CAAP, which together have accounted for about 85 percent of total A.I.D. funding to CINDE. To a much lesser extent, A.I.D./CR recently provided funding to the Center for the Promotion of Exports and Investment (CENPRO), a government agency.

Both CINDE/PIE and CAAP began operations, as they appear today, in 1986. The strategy followed by both programs has consisted of a hands-on, proactive, targeted strategy. Both programs concentrate on working directly and intensively with foreign investors and local exporters. In the case of CINDE/PIE this assistance consists mostly of reaching out to investors at the pre-investment stage through cold-calls, briefing meetings held in overseas offices, and site visits. CAAP concentrates its efforts on providing technical assistance to a select number of farmers.

1.1 CINDE/PIE

CINDE/PIE actually began operations in 1984. During the first two years of implementation, the program adopted what could be termed a "facilitator" strategy. The project spread its

resources among a variety of activities: export promotion, trade promotion, investment promotion, general lobbying, and general studies. This strategy, however, did not work because it did not properly match project resources to the specific competitive advantages of the Costa Rican economy. In short, the program spread itself too thin by trying to be "all things to all people."

By mid-1985 the program switched to an aggressive and targeted "promoter" strategy.[4] The institution focused almost exclusively on investment promotion, with some additional assistance in simple contracting. Initially, four sectors were targeted for promotion: textiles, electronics, metal mechanics and plastics. Five overseas offices were established to "cold call" potential investors and actively stimulate interest in Costa Rica. The staff promoted three types of investment: industrial parks/EPZs, temporary admissions, and export contracts. By the middle of 1988, the program began to expand its range of services by working on more sophisticated contracting deals. Currently, the program has focused on diversification by targeting other sectors including jewelry, pharmaceuticals, shoes, leather, and toys.

In 1989 CINDE/PIE (excluding the Impulso Industrial program) employed 63 people. The staff of CINDE/PIE are evenly divided between the investments division (28) and the marketing division (23). An additional 12 people are administration/support staff."

1.2 CINDE/CAAP

Similar to CINDE/PIE,the CAAP program initially failed to adequately target its services. Within one year, however, CAAP had identified a list of crops that presented the best opportunities for development. During the first two years, CAAP focused its efforts on providing technical assistance. By late 1987 the program also began to push for better marketing assistance. Since mid-1988 CAAP has provided both overseas marketing services, primarily through an office in Miami, as well as targeted technical assistance. Since the outset, it has expanded its range of crops targeted for assistance from four in 1986 to more than 14 in 1990.

About 25 percent of A.I.D./CR funding, or $5.2 million, went to CINDE-CAAP (Nontraditional Agricultural Export Development

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[4] For a detailed description of the "promoter" and "facilitator" strategies see the C.D.I.E. report "Promoting Trade and Investment in Constrained Environments: A.I.D.'s Experience in Latin America and the Caribbean".

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Program). CINDE-CAAP employed 92 people. Most of the staff (62) is concentrated in the production department, which is responsible for working directly with farmers on technical assistance. The rest of the staff is divided as follows: new crops department (13), investment promotion (5), and general administration (12).

1.3 CENPRO

Beginning in 1989 A.I.D./CR provided $339,000 to CENPRO, which represented less than 60 percent of total funding. CENPRO is a governmental agency, the only one among the seven institutions and projects reviewed in depth in this report. CENPRO, with the smallest budget, employs 93 people. The staff of CENPRO is evenly divided among eight departments. The services provided by CENPRO are not as firm-specific and intensive as those of PIE and CAAP and are limited to printed information, directory of Costa Rican exporters, trade shows, export contract incentives and government facilitation. CENPRO works with both agricultural and manufacturing exporters.

2. GUATEMALA

Similar to CINDE in Costa Rica, A.I.D./Guatemala has concentrated its institutional funding for nontraditional exports in one program--the Guild of Exporters of Nontraditional Products (GEXPRONT). The budget of GEXPRONT programs is less dependent on A.I.D. funding than is CINDE, with more than 35 percent of total funding coming from membership fees.

The primary objective of GEXPRONT is the development and promotion of nontraditional exports in both the agricultural and manufacturing sectors. Of the seven institutions and projects reviewed, GEXPRONT and CENPRO are the only two that deal with promotion of exports in both the agricultural and industrial sectors. GEXPRONT promotes exports by working at both the micro level, by providing services to exporters to develop and promote products, and the macro level, by encouraging more favorable policies and development of better infrastructure. A membership association founded in 1982, GEXPRONT has received A.I.D./G funding under a variety of projects since the mid-1980s.

One of the major components of GEXPRONT are the very active sector and product-specific commissions. There are five major commissions, with several subcommissions and working committees: Agriculture, Aquaculture, Furniture and Wood Products, Assembly/ Maquilla and Manufacturing. These commissions, most of which meet weekly, provide the major input for new programs and

directions, as well as requests for technical assistance. According to the general manager, approximately 90 percent of GEXPRONT's activities are direct responses to commission requests. The commissions also facilitate communication between GEXPRONT staff and members, encourage cooperation and exchange of ideas and information among members in similar product lines, and serve as a forum for discussion of common problems and potential needed actions. It has been estimated that between 25 to 40 percent of members participate in commissions.

Until 1990 GEXPRONT had worked almost exclusively with local exporters and investors, concentrating on the development and promotion of agriculture and assembly industries, through more passive services (information and trade fairs) and policy reform. In the past year GEXPRONT has begun to also work with foreign buyers and investors, has expanded into the promotion of industrial products, and is becoming more actively involved in deal making. It recently contracted with a U.S. consulting firm to carry out several product-specific market studies and organize an exploratory site visit to Guatemala for 14 U.S. buyers of the more promising products. Since late 1989, GEXPRONT has been providing the Investor Services Center (funded by A.I.D./G and housed in CAEM, the Businessmen's Chamber) with sector- and product-specific support.

GEXPRONT's overall corporate strategy for 1990 has focused on four areas: (1) influencing all presidential candidates to support programs beneficial to nontraditional exporters, (2) working to improve transportation and telecommunication services and education/training programs, (3) developing a membership of 3,000, and (4) improving the quality of local consultants.

The staff of GEXPRONT is divided into two units:

-- Operational Unit (Promotion, Training and Technical Assistance, Information, Projects) and

-- Strategic Unit (CONAPEX and CONACOEX, Transport Rate Negotiating Office).

The GEXPRONT program is represented in the United States through the commercial attachés in the Guatemalan embassies (they partially finance these offices). The main office is in Guatemala City with a smaller one in Quetzaltenango.

3. REGIONAL CENTRAL AMERICA

Since 1985 A.I.D./ROCAP has concentrated much of its funding for trade and investment promotion in the nontraditional agricultural export support project (PROEXAG). The project is a

regional program for Central America. The project office is located in Guatemala City and works through local exporter associations in various countries. It also has a representative in London. Although the office receives drop-in visits, it mainly responds to written requests for information and assistance. The project is funded entirely through A.I.D. and is the only "noninstitutional" program included in this study.

PROEXAG's three primary objectives, defined by time horizon and target group, are to

1. Provide technical and entrepreneurial assistance to individual enterprises in order to establish as quickly as possible self-sustaining growth of nontraditional agricultural crops (short term/enterprise level);

2. Strengthen the capacity of export support organizations to represent and defend the interests of the nontraditional agricultural export subsector and to provide or facilitate the provision of general support services (medium term/export support organizations); and

3. Transfer crop-specific technical information and contacts within the industry to groups of producers and exporters, as a means of strengthening their capacity to access information, technology, expert advice, and markets (long term/crop associations).

PROEXAG's strategy is to provide long-term targeted assistance. After developing a list of priority crops for each country, the staff defines and develops specific activities in five different technical disciplines, depending on the specific crops: (1) production, (2) post-harvest handling, (3) processing, (4) transport, and (5) marketing. Examples of activities include strategic management assistance, varietal trials, opening of new transport routes, deal making. To date, most of the technical assistance has been provided at no charge.

The PROEXAG contract has been managed by Chemonics International, with the assistance of two subcontractors: SDR Research and Agridata Resources. There is a project manager with five senior expatriate resident advisers in production, post-harvest handling, marketing, and computer use and training, supported by local junior technical staff professionals. Resident advisers work with local, junior counterparts. The staff works with Central American producers and exporters as well as foreign buyers and investors to make trade deals. Most of PROEXAG's efforts have been in Guatemala, Costa Rica, and Honduras; work in El Salvador and Panama has been limited by civil unrest.

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4. DOMINICAN REPUBLIC

Since 1985 A.I.D./Dominican Republic has concentrated its institutional funding for nontraditional exports in the Investment Promotion Council (IPC) and the Council for Agribusiness Cooperation and Joint Ventures (Junta Agroempresarial de Cooperación y Coinversión--JACC). The budgets of both institutions are dependent almost entirely on A.I.D. funding, although JACC receives more than 25 percent of its budget from host government and internal funds.

4.1 IPC

The objective of the IPC of the Dominican Republic is to promote exports in two ways: (1) through promotion of foreign investment in export-oriented industries, mainly in industrial free zones, and (2) to a lesser extent, through promotion of contract production with firms located both inside and outside of the industrial free zones. The contract production program distinguishes IPC from CINDE/PIE, which has focused its formal programs exclusively on promotion of direct foreign investment until quite recently. Although originally mandated to promote investment in four sectors--free zones, agriculture, tourism, and mining--the IPC has focused its investment promotion efforts on the free trade zones, with other institutions taking primary responsibility for the other sectors.

Since 1986 the IPC has targeted its programs on the apparel, electronics and shoe sectors although investors in other areas also receive assistance. The promotional strategy has consisted of (1) promotion of the country as an investment or contract production site through trade fairs, targeted mailings, publicity in trade journals, and selective visits to investors in the United States; (2) support for site visits and followup; (3) provision of technical assistance and buyer contacts for locally based contractors. The major services provided include information about the country and specific sectors, overseas communications, marketing, market research, in-country investor assistance, and technical assistance to local producers (provided through a contract with the International Executive Service Corps).

4.2 JACC

The Council for Agribusiness Cooperation and Joint Ventures (JACC) is a membership organization the objective of which is promotion of agricultural development in the Dominican Republic,

primarily through local and foreign investment in the nontraditional export sector.

JACC was established in the Dominican Republic in the mid-1980s with funding from A.I.D./Washington, with the primary goal of promoting joint ventures with U.S. businesses in the nontraditional agricultural export sector. The total level of funding allocated to JACC was more than $17 million. In addition to A.I.D. funding, JACC receives more than 25 percent from host country funds and internal sources (mostly membership fees).

The core of JACC's strategy focuses on developing its membership base. In this way it hopes to broaden its base of support. Over the past few years, the organization has shifted more to policy reform and improving the direct services to investors and exporters. To date JACC has not followed a highly targeted strategy, partly in an attempt to broaden its membership base. It currently has a list of more than 30 "priority products" with which they work. The services provided include technical assistance/training, information on foreign markets, buyer contacts, trade shows, and lobbying with the government.

5. CHILE

5.1 ProChile

ProChile is a relatively new public-sector export promotion agency with strong formal and informal ties to the private sector. Founded in 1977, it is located in the Ministry of Foreign Affairs and expends about three quarters of its $5.2 million annual budget abroad on direct promotion. Its objective has been strictly export promotion for Chilean firms, but it is currently expanding its program to include support of a newly formed investment promotion commission.

ProChile focuses its promotion efforts in part by means of sectoral committees made up of private sector exporters. Although there are approximately 30 committees representing 10 sectors, in practice very few receive emphasis at the same time. For example, in its earlier years ProChile emphasized fruit (especially grape) export promotion but now believes that this industry can stand alone.

The agency has 28 foreign representative offices on five continents. Fewer than 20 percent of the country's exports are destined for the United States, compared to more than 50 percent for the remaining case study countries.

5.2 Fundación Chile

Fundación Chile is a private foundation with a $50 million endowment, half originally provided by International Telephone and Telegraph (ITT) and half by the Government of Chile. Its fundamental objective is the promotion of Chilean exports by technology transfer coupled with indigenous technological development. In addition to direct technical assistance and training, the Foundation actually funds and operates new firms, privatizing them as they become viable. For this reason, the annual expenditures of Fundación Chile vary significantly, although operating expenses and capital allowances average about $5 million per year, well within the current funding provided by the endowment.

Fundación Chile concentrates on four to five development programs simultaneously, for example, salmon farming, fishmeal biotoxicology, and fruticulture quality control. It develops its own target technologies and markets, seeking out appropriate investors as production processes reach the appropriate stage, but it does not attempt to develop a permanent membership base.

5.3 Corfo

The Development Corporation of Chile (Corfo) is a public sector development corporation, charged with domestic investment promotion. An older agency than the others discussed here, it has been charged with several responsibilities in addition to direct promotion, including economic planning, credit distribution, and channeling multilateral aid. It also served as the holding company for Chilean state-owned firms, but that responsibility has gradually diminished as a result of privatization in recent years.

Corfo has taken a very broad, unfocused approach to export promotion, in terms of both target products and promotional tools. The distribution of credit and program funding has apparently responded to political as opposed to market incentives, resulting in nonmarketable products (e.g., Chilean rabbit fur) and an uncollectible loan portfolio. The agency's primary current contribution to private investment promotion is its disinvestment in formerly state-owned companies.

ANNEX B

OVERVIEW OF COUNTRY EXPORT PERFORMANCE UNDER THE CARIBBEAN BASIN INITIATIVE

1. INTRODUCTION

1.1 Overview of Central Issues for Investment and Export Promotion

The intent of the Caribbean Basin Initiative (CBI) is to increase nontraditional exports (NTEs) from the Caribbean and Central America. The main elements of the initiative have been trade incentives for CBI countries and increased bilateral assistance for trade and investment promotion programs.

This report assesses the outcome of this assistance to date, focusing on the bilateral export and investment promotion programs implemented by the Agency for International Development in the form of A.I.D.-supported institutions (ASIs). Such an assessment must be undertaken in the context of the CBI region's concrete performance under the program, addressing the following issue.

-- What has been the performance of nontraditional export activity in the three case study countries where the ASIs studied are located (Costa Rica, the Dominican Republic, and Guatemala), and what role have A.I.D.-supported programs played in contributing to this performance?

1.2 Key Questions Raised by the Issues

This annex is designed to address two key questions relevant to the issue stated above.

1. How have nontraditional exports performed for the case study countries and the CBI as a whole?

2. How does the performance of nontraditional exports from a country without A.I.D.-supported export promotion programs (Chile) compare with that of the A.I.D. countries?

A third question is implied by an assessment of CBI export performance and especially by the second question above: To what extent do macroeconomic policies, as opposed to direct promotion programs, affect nontraditional export performance? Alternatively, can promotional institutions function effectively and provide an attractive rate of return in an unfavorable policy environment? A full answer to this question lies outside the scope of this study, because the four countries studied in detail--Chile, Costa Rica, the Dominican Republic, and Guatemala--have all displayed a policy environment relatively favorable to exports and investment generally during at least part of the period under study. Nevertheless, the attractiveness of the policy environment for exporters has varied over time in these countries and Chile has a much longer history of favorable macroeconomic policies, which permits the study to shed some light on this important issue.

1.3 Study Approach to Resolving These Questions

This annex sets the stage for the subsequent analysis of promotional institutions and their impact on nontraditional exports. It reviews the export performance of the CBI region during the Caribbean Basin Initiative, that is, from 1983 to the present, focusing particularly on the four case study countries and examining briefly the role macroeconomic policies have played in promoting export and investment growth. It is beyond the scope of this paper to attempt to fully identify and compare the determinants of export growth; therefore, the analysis in this section is limited to simple statistical analysis and relevant data collected in the course of the assigned tasks.

2. THE CARIBBEAN BASIN INITIATIVE: OBJECTIVES AND STRATEGY

The Caribbean Basin Initiative (CBI) is a U.S. Government trade initiative to promote economic growth and political stability in Central America and the Caribbean. Begun in 1984 with the passage of the Caribbean Basin Economic Recovery Act (CBERA), the CBI provides for increased effort in the areas of investment and trade promotion within existing assistance programs and special import privileges for a range of products. The program's three objectives are to

1. Increase domestic and foreign private investment in nontraditional export sectors in Central America and the Caribbean;

2. Diversify the production base of the CBI countries; and

3. Expand, promote, and diversify their exports.

The major focus of the CBI has been the promotion of rapid growth in nontraditional exports from Central America and the Caribbean through expanded private sector investment and trade. Twenty-two countries are designated beneficiaries of the CBI program.[1] Within this group, A.I.D.-assisted countries account for more than 90 percent of the population.[2]

Although several agencies support the Initiative, the Department of Commerce and A.I.D. play lead roles, each managing programs consistent with the overall responsibilities and expertise of the agency. The Department of Commerce provides policy guidance, undertakes programs to encourage U.S. investment in the region, and supervises implementation of the import privileges granted to CBI beneficiary countries. A.I.D.'s program complements these initiatives by supporting export and investment promotion programs in the region, particularly those undertaken by private and quasi-public institutions based in beneficiary countries, and by encouraging a policy environment more conducive to investment and export in the beneficiary countries.

A number of trade preference measures benefit the Caribbean Basin region, many of which were not formally initiated under the CBI itself. The CBI provides for reduced duties of a number of nontraditional products. This program was initially limited by time, but benefits under the CBI were extended indefinitely in 1990. Textiles and apparel are formally excluded from the list of products covered by the CBI itself, but are included within the 807 and 807-A ("Super 807") programs, allowing garments assembled from raw materials originating in the United States to be imported without quota limitations and with duties assessed only on the value added overseas, if the same U.S. firm supplies

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[1]Antigua and Barbuda, Aruba, Barbados, the Bahamas, Belize, the British Virgin Islands, Costa Rica, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. Panama was initially included but was suspended until recently.

[2]Belize, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, and the independent Eastern Caribbean countries. Panama was added in late 1989.

the materials and purchases the product. In addition, tax preferences associated with U.S. investments in Puerto Rico (the 936 program) were modified to encourage firms investing in Puerto Rico to create twin plants elsewhere in the Caribbean. Although the 807 and 936 programs are not formally part of the CBI, they are generally regarded as such by all concerned.

3. AGGREGATE REGIONAL PERFORMANCE IN EXPORTS, INVESTMENT, AND EMPLOYMENT

Total exports to the U.S. from the Caribbean Basin did not increase during the first six years of the CBI: on the contrary, sharp drops in traditional exports (due in large part to the reduction in CBI country sugar quotas by the United States) overwhelmed the growth in NTEs[3]. Total exports declined by 7 percent annually from 1983 to June 1989. Despite this poor performance at the global level, however, substantial progress has been made since the CBI's inception toward achievement of the initiative's three specific objectives, as the following statistics illustrate.[4]

-- Nontraditional exports from the region to the U.S.--notably textiles--grew at an annual rate of more than 21 percent from 1983 to 1989, nearly tripling in current terms.

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[3]Several definitions of nontraditional exports are found in the literature. This discussion is based on U.S. Commerce Department data on U.S. imports for consumption from the CBI and LAC countries, for which NTEs are defined to include all products in categories 06, 07, 08, 20, and 29-96 of the new conformed system, except 0803 (bananas), and excluding 71-81 for mineral producing countries. For purposes of this study, NTEs include all products except bananas, cattle, coffee, cotton, sugar, and (for Chile) copper.

[4]The question of whether the CBI has benefited the region has been extensively debated in the literature. For a more detailed discussion of CBI region export performance, the reader is referred to the 1989 report by the Department of State's Office of Regional Economic Policy, to Report by the U.S. Department of State on the CBI, and to Is the Caribbean Basin Initiative Working? by James W. Fox (A.I.D., 1989), from which the statistics in the paragraph above are taken, or to any of several reports on this topic by the General Accounting Office and the U.S. Department of Commerce.

-- The share of total CBI region exports provided by NTEs rose by half, from 46 percent in 1983 to 70 percent in 1988.

-- Nontraditional exports accounted for an estimated 53 percent of the value added of Caribbean Basin exports to the United States in 1988, up from 34 percent in 1983.

-- A 1988 survey by the U.S. Department of Commerce documented $1.6 billion in new, export-oriented investment in the region since the CBI was initiated, creating an estimated 116,000 jobs.

The contribution of the CBI toward achievement of this progress remains controversial. To what extent is this growth attributable to the policy dialogue, import preferences, and promotional programs supported by the CBI, rather than to private and public initiatives undertaken independently by investors and governments in the region? Would the growth achieved have taken place without the CBI? Although these questions probably cannot be answered definitively, this study is designed to contribute to the development of a consensus on the contribution of the CBI, focusing in particular on the promotional programs supported by A.I.D. in the countries of the Caribbean Basin.

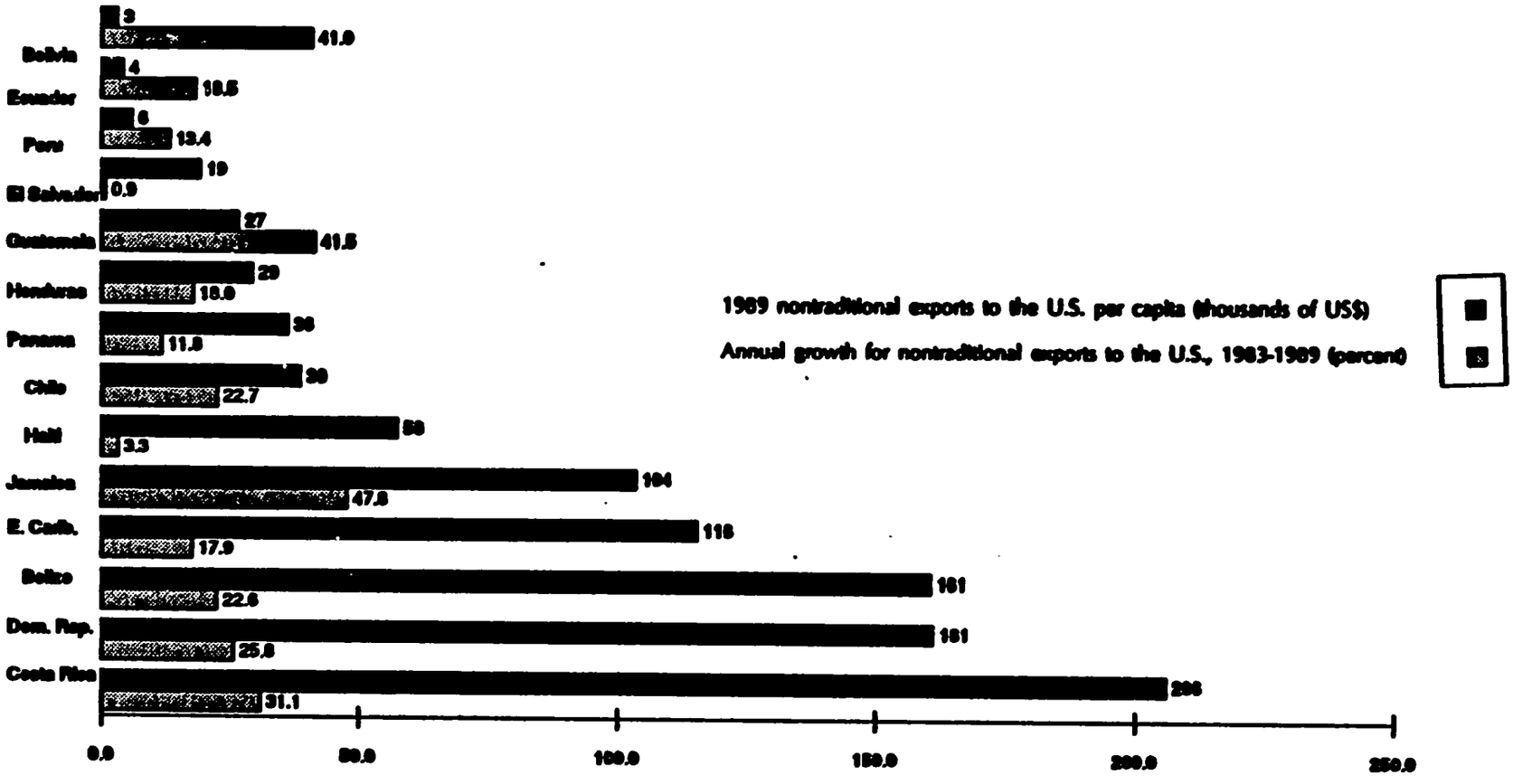
Figure B-1 presents a summary of the nontraditional export performance of selected A.I.D.-assisted CBI countries and other countries in the LAC region. This figure demonstrates that Costa Rica, the Dominican Republic, and Belize lead the field in total nontraditional exports to the United States, on a per capita basis, followed by the Eastern Caribbean and Jamaica. The fastest growth in nontraditional exports during the 1983-1989 period, however, was registered by Jamaica, Guatemala, and Bolivia, followed by Costa Rica and the Dominican Republic.

4. NONTRADITIONAL EXPORT PERFORMANCE OF CASE STUDY COUNTRIES

The three CBI region case study countries, Costa Rica, the Dominican Republic, and Guatemala, demonstrate success in increasing nontraditional exports through different routes. Tables B-1 and B-2 provide additional information on the performance of these three countries during the 1983-89 period, together with information on the fourth (non-CBI) case study country, Chile.

The four countries demonstrate both diversity and important commonalities, as indicated below.

Figure B-1. Performance of Nontraditional Exports to the United States for Selected LAC Countries (Per Capita Volumes and Annual Growth Rates)



Source: U.S. Department of Commerce

Table B-1. Summary of Nontraditional Exports to the United States from Case Study Countries

	1989 Exports (U.S.$bb)	Log-linear Fitted Growth Rates			Percentage of All Exports		
		1983-89	1983-86	1986-89	1983	1986	1989
Costa Rica							
Nontraditional Agricultural Exports	79264	36.2	34.2	37.6	3.1	4.7	8.2
Manufactures	516575	30.1	27.3	33.3	27.1	34.1	53.4
Total Nontraditional Products	595839	30.8	28.0	33.8	30.2	38.8	61.6
Dominican Republic							
Nontraditional Agricultural Exports	48209	4.9	10.9	2.6	3.9	4.1	2.8
Manufactures	1296206	20.9	15.5	26.3	51.8	61.2	79.2
Total Nontraditional Products	1342415	20.0	15.1	25.1	55.5	65.4	82.0
Guatemala							
Nontraditional Agricultural Exports	43985	20.1	21.8	17.0	3.7	4.3	7.2
Manufactures	188966	40.6	25.7	56.4	6.0	8.1	31.1
Total Nontraditional Products	232851	34.6	24.2	46.1	9.7	12.4	38.3
Chile							
Nontraditional Agricultural Exports	319181	20.2	26.2	14.5	12.4	26.2	25.3
Manufactures	166800	30.9	18.4	48.0	3.5	6.5	13.7
Total Nontraditional Products	485781	23.0	24.5	22.5	15.9	32.7	40.0

Source: U.S. Department of Commerce

Table B-2. Total Nontraditional Exports to the United States from Case Study Countries, 1983-1989

	1983	1984	1985	1986	1987	1988	1989
Chile							
Fruits/Vegetables	110.8	140.2	197.8	214.2	274.5	321.7	319.2
Apparel	0.2	0.5	1.4	5.1	10	27.1	36.5
Non-apparel manuf.	31.5	43.1	48.2	48.2	66.2	98.8	130.1
Total nontraditional	142.5	183.8	247.4	267.5	350.7	447.6	485.8
Costa Rica							
Fruits/Vegetables	11.9	17.3	19.3	30.5	38.6	53.7	79.3
Apparel	64.2	78.7	96.8	140.6	178.5	247.2	323.6
Non-apparel manuf.	38.2	55.5	64.6	75	96.2	126.4	176.8
Total nontraditional	114.3	151.5	180.7	246.1	313.3	427.3	579.7
Dominican Republic							
Fruits/Vegetables	31.8	37.2	40.3	43.7	38.6	42.4	46.2
Apparel	136.8	171.5	214.3	279.7	374.7	522	644.4
Non-apparel manuf.	114.2	141.1	163.8	169	229.6	337	432.4
Total nontraditional	282.8	349.8	418.4	492.4	642.9	901.4	1123
Guatemala							
Fruits/Vegetables	14	18.3	19.9	26.4	32.3	33.7	43.9
Apparel	3.5	9	12.8	20.6	42.3	80.4	130.5
Non-apparel manuf.	10.5	26.4	16.8	20.1	32.7	39.9	50.3
Total nontraditional	28	53.7	49.5	67.1	107.3	154	224.7
Indices							
Chile							
Fruits/Vegetables	100	126.5	178.5	193.3	247.7	290.3	288.1
Apparel	100	250.0	700.0	2550.0	5000.0	13550.0	18250.0
Non-apparel manuf.	100	136.8	153.0	153.0	210.2	313.7	413.0
Total nontraditional	100	129.0	173.6	187.7	246.1	314.1	340.9
Costa Rica							
Fruits/Vegetables	100	145.4	162.2	256.3	324.4	451.3	666.4
Apparel	100	122.6	150.8	219.0	278.0	385.0	504.0
Non-apparel manuf.	100	145.3	169.1	196.3	251.8	330.9	462.8
Total nontraditional	100	132.5	158.1	215.3	274.1	373.8	507.2
Dominican Republic							
Fruits/Vegetables	100	117.0	126.7	137.4	121.4	133.3	145.3
Apparel	100	125.4	156.7	204.5	273.9	381.6	471.1
Non-apparel manuf.	100	123.6	143.4	148.0	201.1	295.1	378.6
Total nontraditional	100	123.7	147.9	174.1	227.3	318.7	397.1
Guatemala							
Fruits/Vegetables	100	130.7	142.1	188.6	230.7	240.7	313.6
Apparel	100	257.1	365.7	588.6	1208.6	2297.1	3728.6
Non-apparel manuf.	100	251.4	160.0	191.4	311.4	380.0	479.0
Total nontraditional	100	191.8	176.8	239.6	383.2	550.0	802.5

Source: U.S. Department of Commerce

-- Guatemala, one of the most recent entries into the ranks of dynamic exporting countries, registered themost rapid growth in NTEs during the period. Beginning from the smallest base, it remains behind the other two CBI case study countries in the percentage of total exports generated by NTEs as well as in total non-traditional exports. Although the light manufacturing sector outperformed agriculture in percentage growth, Guatemala continues to have the highest proportion of agricultural products in total NTEs among the three CBI countries.

-- Costa Rica moved steadily forward during the period, showing particularly strong growth in the late 1980s. Nontraditional manufactured exports grew to account for more than half of all exports and nearly 90 percent of NTEs, whereas nontraditional agricultural exports (NTAEs) grew more rapidly, although from a smaller base.

-- The Dominican Republic consolidated its position as a proven platform for offshore manufacture in its free zones, but failed to make significant gains in the agricultural sector. NTEs, already half of total exports in 1983, grew steadily toward dominance of the export sector and accounted for more than 80 percent of total exports in 1989. Apparel registered the strongest growth, whereas NTAEs actually declined as a share of total exports over the period.

-- Chile continued the strong growth that began in 1973 in nontraditional exports of all types, having preceded the CBI region case study countries. Starting from consequently higher export bases by 1983, its percentage growth rates are now somewhat lower than those of Costa Rica and, occasionally, than those of Guatemala. Also because of its higher initial base and head start, its NTAEs as a proportion of all exports have remained at the highest level of the case study countries[5].

In all three Caribbean Basin countries, the CBI objectives of diversifying the export and production bases and expanding

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[5]The U.S. import figures do not fully present to the Chilean export picture, because less than 20 percent of its exports are bound for the U.S. market, compared with more than 50 percent for each of the remaining case study countries. Nevertheless, the growth rates involved do allow legitimate comparisons.

exports have been accomplished. Guatemala shows the most progress in this regard, with nontraditional exports increasing from less than 10 percent of total exports in 1983 to 38 percent in 1989. Nontraditional exports now account for more than 80 percent of total exports in the Dominican Republic, although growth has been concentrated in free zone manufactures. As a comparison, Chile's diversification (measured as the percentage increase in the share of NTEs) has increased at about the average rate of that of the three CBI countries.

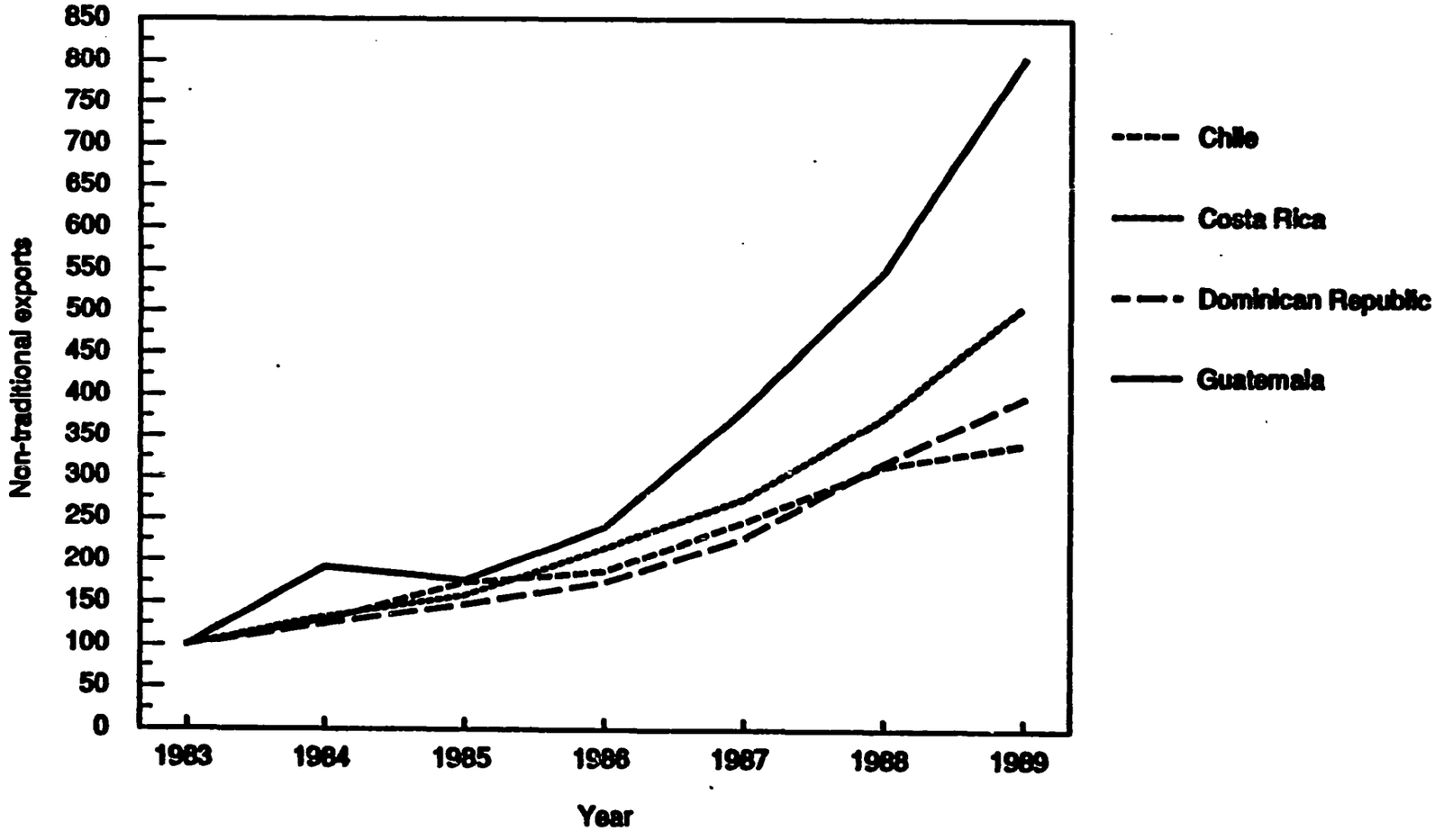
Each of the three CBI region countries has achieved high growth in NTEs under the CBI, but the specific path each has pursued has been shaped by differences in institutions, policies, and resource endowments, as well as by the different stage of development at which each entered the CBI period. The varying tendencies by sector are shown in Figures B-2, B-3, and B-4, which compare the indices of export performance for the four countries studied, based on the data presented in Table B-2. Guatemala, beginning at a lower level of both overall NTEs and manufacturing exports, has outperformed the other two CBI case study countries in percentage growth, and the Dominican Republic has lagged the other two countries in that respect. Costa Rica, at an intermediate initial level of development, has significantly progressed as has Chile, with solid growth in manufacturing as well as in NTAEs.

In part the differences in export performance result from differing institutional objectives and structure, as described in Annex C. In the Dominican Republic, for example, much more funding and government attention have been concentrated on IPC's investment promotion program, as opposed to NTAE promotion, whereas Costa Rica's CINDE has followed a more balanced program. Such programmatic differences may account for Costa Rica's superior performance in nontraditional agricultural exports. Equally important, however, public economic policies have differed, to some extent, both among the three countries and over time within each country. Policy environment may be at least as important a determinant of export performance as is institutional support.

5. POLICY IMPACTS ON NONTRADITIONAL EXPORT PERFORMANCE

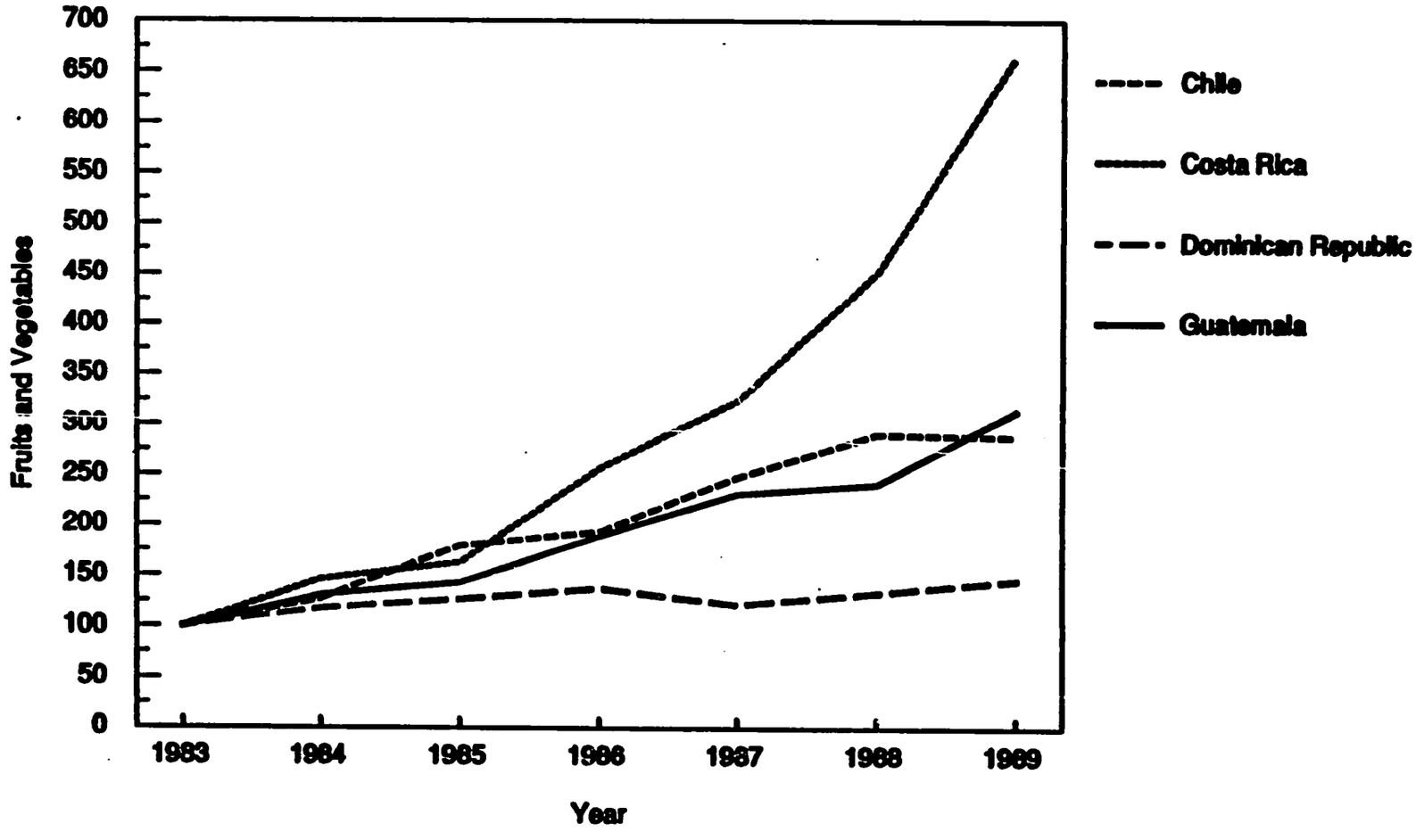
Although this study was not designed to differentiate among the impacts of the various determinants of export growth, its results can shed some light on the relative importance of policy impacts and institutional impacts. The four case study countries are currently fairly similar in their macroeconomic policies,

Figure B-2. Index of Total Nontraditional Exports to the United States



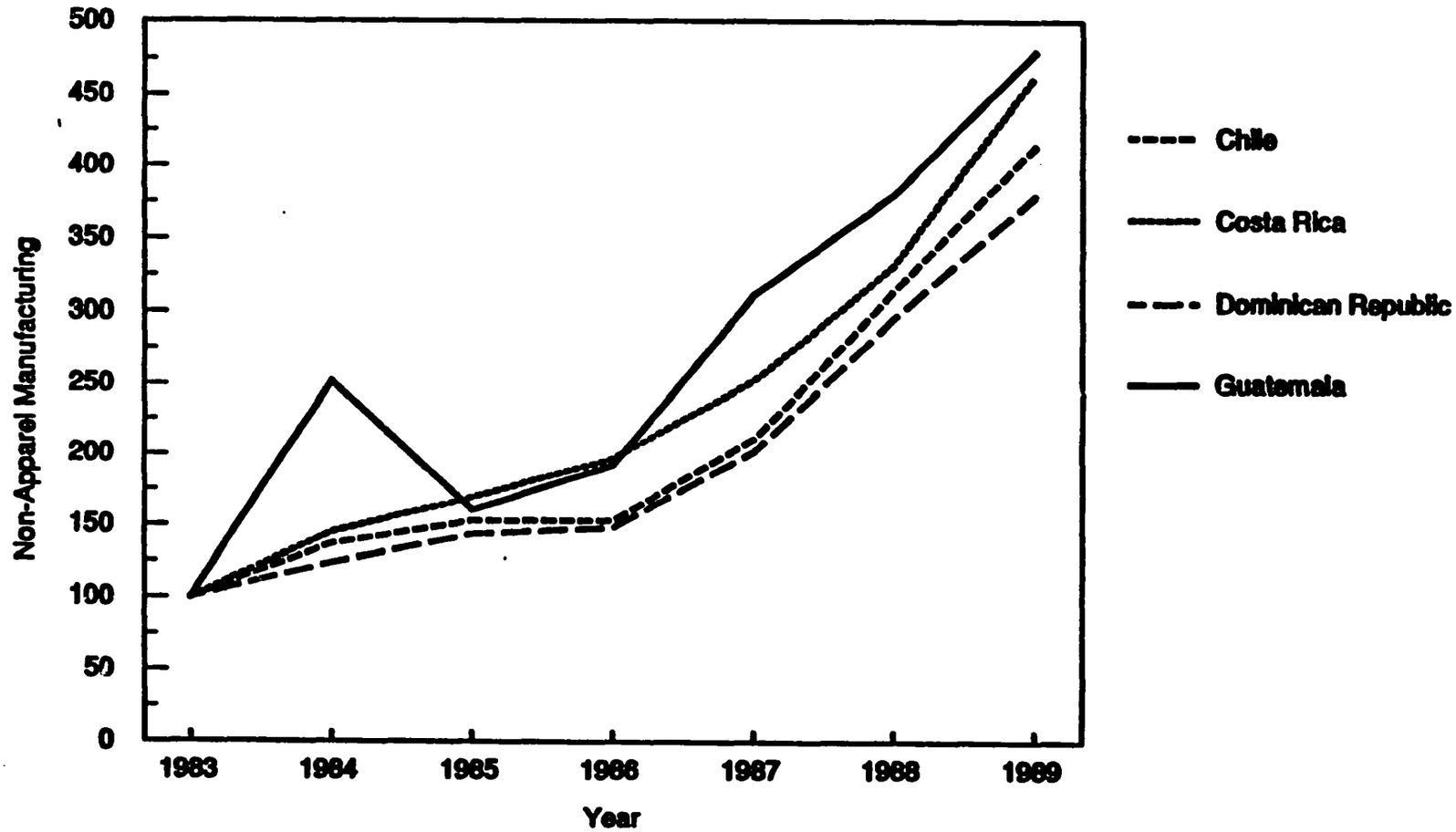
Source: U.S. Department of Commerce and Team Calculations

Figure B-3. Index of Fruit and Vegetable Exports to the United States



Source: U.S. Department of Commerce and Team Calculations

Figure B-4. Index of Non-Apparel Manufacturing Exports to the United States



Source: U.S. Department of Commerce and Team Calculations

favoring exportation in broad terms. This happy turn of events has not always and everywhere been the case, however, and the past departures from positive policy environments in the case study countries are instructive in their immediate effects in those countries, compared with trends in the other countries. Analogous trends in other CBI countries lend additional evidence to policy impact comparisons.

Four types of evidence gathered during the course of this study bear on the impact of the macroeconomic policy environment on nontraditional export performance, as follows.

-- Since 1973, the growth of Chilean nontraditional exports has proceeded at a pace comparable with the current growth in our case study countries. At that time, Chile adopted a set of export-oriented policies and has continued to develop them.

-- The Dominican Republic has adopted more restrictive policies at several points during the study period, negatively affecting its exports in comparison with its case study counterparts, especially Guatemala.

-- The most effective ASIs are those operating in a positive policy environment, while those operating in negative environments have not performed well.

-- Exchange rate flexibility is statistically associated with the growth of nontraditional exports throughout the Caribbean Basin.

The following three sections present these four types of evidence in more detail.

5.1 Impact of Macroeconomic Policy in Chile

The Chilean experience with export-oriented policies demonstrates their positive impacts over a longer time span than that covered by the CBI experience. Beginning in 1973, the country began a program of economic reform and liberalization including (1) price decontrol (1973-75), (2) exchange rate unification and decontrol (1973, 1982), (3) labor reform (1973-79), (4) interest rate decontrol and financial sector deregulation (1979), (5) balancing of the central government budget (1974-75), and (6) general deregulation and "debureaucratization." Following a three-year decline in export activity before the 1973 reforms, the Chilean external sector began a period of rapid expansion, during which nontraditional

exports grew at an average rate of 57 percent per year, lasting until the international recession of 1981 (exchange rates had been recontrolled beginning in 1979). Growth resumed in 1983, with exchange rate decontrol and continued reform of economic policy, including a lowering of tariff barriers (to a uniform level fluctuating between 10 and 35 percent, currently with a 20 percent legal maximum). The growth rate of nontraditional exports during the period covered by this study (1983-89) has been 23 percent per year.

It would thus appear that Chilean nontraditional export growth has corresponded closely to macroeconomic policy and has, in particular, responded positively and immediately to specific policy changes, including exchange rate decontrol and tariff liberalization. Is it possible to determine how much of this growth is due to macroeconomic policy reform? Within the limits imposed by availability and measurability, regression analysis allows an initial answer to this question.

Certain policy variables can be measured by allowing statistical comparison with export growth, but other measures can not. The two measures that appear to be most important for nontraditional export growth in Chile, exchange rates and tariff rates, are measurable and available. The peso to dollar exchange rate, in both real and nominal terms, is published by the Central Bank of Chile, as is the average rate of import duties. (No trade-weighted exchange rate series was available.) Without further elaboration, the team estimated linear regression equations using exchange rates and tariff rates as independent variables determining the total current volume of nontraditional exports from Chile. Several different specifications of the equation were estimated and compared, including lagged values of the explanatory variables and real instead of nominal exchange rates. The differences in explanatory power were not significant for these alternative specifications, as long as some measure of both tariffs and exchange rates was included. Deleting or adding either explanatory variable changed the R^2 significantly. The results of this simple model were as follows.

-- The explanatory variables had the expected effects: the peso to dollar exchange rate was positively associated with nontraditional exports, and import duties were negatively associated with exports. All coefficients were significant at the 95 percent level.

-- The explanatory power of the "best" model was about 90 percent (R^2 of 0.905), although other specifications were all more than 80 percent.

-- No difference in explanatory power results from specifying the equation for separate time periods. In

particular, the pre-1983 period yields results similar to those of the 1983-89 period.

Clearly, liberal macroeconomic policies are significantly and positively associated with the growth of Chilean exports. However, the evaluation team does not interpret these results to indicate that these two policies explain 90 percent of the variation in nontraditional export growth, because the model is incomplete. A full specification would have to include additional policy variables, along with some measurement of the participation of Chilean export promotion institutions. The resulting time series model could then be compared with cross-section estimates such as those described in Annex D. Such an exercise is beyond the scope of this evaluation. Nevertheless, initial estimates carried out here serve to indicate that the economic policy environment can explain a significant degree of the variation in nontraditional export growth.

5.2 Comparison of Macroeconomic Policies in Guatemala with Those in the Dominican Republic

A comparison between the performance of the manufacturing and agricultural sectors in the Dominican Republic and that in Guatemala further highlights the importance of the macroeconomic policy environment in achieving export growth. The policy environment in Guatemala became more favorable to nontraditional exports during the latter half of the period studied, with the move toward an export-oriented regime marked by the sharp devaluation of the quetzal from 1:1 to 1:2.5 against the dollar in 1986 and the unification of the exchange rate system. In addition, the Government of Guatemala increased interest rates, lowered import tariffs, and reduced price controls. By contrast, the foreign exchange regime in the Dominican Republic has been characterized by instability since 1986, with periods during which the rate was close to the free-market level alternating with periods of overvaluation and foreign exchange scarcity. Neither has the Government of the Dominican Republic liberalized the country's financial system and price controls to the extent the Government of Guatemala has since 1986. Partly in consequence, the growth rates of nontraditional exports from Guatemala have been more than double those of the Dominican Republic, broken down as follows.

-- In Guatemala, the annual growth rate for manufactures doubled from 26 percent in 1983-86 to 56 percent in 1986-89. Nontraditional agricultural exports did not respond as strongly but maintained their already high rate of growth.

-- In the Dominican Republic, nontraditional agricultural exports grew at an annual rate of only 2.6 percent from 1986 to 1989. In addition, growth even in the relatively strong manufacturing sector was largely in the free zones and therefore at least partly exempt from macroeconomic mismanagement.

Table B-3 disaggregates the performance of Dominican exports by export regime[6] and shows that more than 90 percent of the growth experienced in nontraditional exports during 1984-89 is attributable to the expansion of free zone production. Nontraditional production outside the free zone actually declined slightly as a percentage of total exports (from 11 percent to 10 percent), whereas free zone manufactures more than doubled, from 2% percent of total exports in 1984 to 48 percent in 1989.

In conclusion, the mixed policy experience of the Dominican Republic since 1983, compared with that of Guatemala, again indicates that much of the variation in nontraditional export performance is due to policy differences.

Policy Experience of Other CBI Countries

As mentioned earlier, the scope of this evaluation does not extend to policy impact analysis, nor does it include analysis of the trade performance of individual CBI countries other than the four case study countries. Moreover, even if these issues were objects of the study, it would be difficult to devise a global means of comparison of macroeconomic policies and trade performance for the varied economies of the Caribbean Basin. Nevertheless, as before, the evaluation results can shed some light on the policy issue, by comparing policy programs and export growth rates for other CBI countries with those of the case study countries, as follows.

-- Certain CBI countries have received A.I.D. program assistance for export promotion institutions quite similar to those of Costa Rica, Guatemala, and the Dominican Republic. To the extent that there are economic policy differences among the CBI countries, some portion of their differential export

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[6]The figures shown in Table B-3 are derived from data provided by CEDOPEX, the Dominican Republic export promotion agency, and disagree with the data provided by the U.S. Department of Commerce, the source for the other data discussed in this section.

Table B-3. Summary of Dominican Republic Export Performance

	Percentage of Total Exports						Composition of Sectoral Exports				Annual Growth Rate for 1984-89 Period		Percent of 1984-89 Growth Attributable to	
	1984			1989			1984		1989					
	National	Free-zone	Total	National	Free-zone	Total	National	Free-zone	National	Free-zone	National	Free-zone	National	Free-zone
Agricultural	3.1	0.0	3.2	2.0	0.0	2.0	98.8	1.2	99.5	0.5	0.1	-17.1	0.0	0.0
Agro-Industrial	3.9	0.2	4.0	3.5	0.4	3.9	96.1	3.9	90.8	9.2	7.2	29.7	2.9	0.7
Industrial	3.9	18.2	22.1	4.6	43.6	48.2	17.8	82.2	9.5	90.5	12.7	30.2	5.8	89.8
Other	0.1	0.0	0.1	0.1	0.3	0.3	94.7	5.3	25.5	74.5	6.4	134.8	0.1	0.7
Total Nontraditional	11.0	18.4	29.4	10.2	44.2	54.4	37.6	62.4	18.8	81.2	7.8	30.3	8.8	91.2

Source: CEDOPEX, Government of the Dominican Republic.

performance can be ascribed to their policies.

-- Although no comprehensive global measure of economic policy is available for these countries, a comparison of exchange rate management can serve as a proxy for economic policy in general. The flexibility of the effective exchange rate can then be compared with the growth of nontraditional exports.

In terms of the first approach to policy comparison, three countries, Honduras, El Salvador, and Haiti, have received program assistance for ASIs similar to that of the three CBI case study countries. Although other A.I.D. countries in the region have received export promotion assistance, these six countries have programs most similar to one another in terms of structure and level of funding. The three countries not covered in this evaluation, however, appear to have exhibited much less favorable economic policy programs during the study period. All have had overvalued exchange rates, controlled interest rates, relatively high and uneven import tariff structures, and price controls during most of the study period. At least partly in consequence, their nontraditional export growth was much lower than that of the case study countries from 1983 through 1989.

-- The annual rates of growth of nontraditional exports to the United States from Haiti, Honduras, and El Salvador were 3.3 percent, 17.9 percent, and 0.9 percent, respectively. Those of Costa Rica, the Dominican Republic, and Guatemala were 31.1 percent, 25.8 percent, and 41.5 percent, respectively.

Although these countries share differences besides those in macroeconomic policy, their policy programs have evidently affected their export performance.

The second means of policy comparison mentioned earlier was to use exchange rate performance as a proxy for macroeconomic management. If nominal effective exchange rates have been allowed to adjust to near-market levels, then policy management may be judged to have been favorable to exports. In the case of most CBI countries, such management would imply secular decreases in the dollar-to-local currency exchange rate, because the local exchange rate has been higher than that of the dollar. In addition, such decreases would imply export-oriented policy management, because they would tend to make domestic production less expensive in dollar terms. If macroeconomic policy affects export performance, these changes should be statistically related to export growth.

-- The relationship is clearly negative, indicating that countries that have adjusted exchange rates the most (therefore having lower indices) have increased their nontraditional exports the most.

In this case as well, economic policy appears to have a significant effect on export performance.

6. CONCLUSIONS

This annex has addressed the issue of whether nontraditional exports from the CBI countries, and especially from the case study countries, have increased as intended by the set of policies and programs known as the Caribbean Basin Initiative. In addition, within the limited context of the institutional evaluation undertaken, it addressed the question of whether the macroeconomic policy environments of the countries involved may have affected export performance as have the A.I.D.-supported export promotion institutions. The general conclusions concerning these issues are as follows.

-- Nontraditional exports from the Caribbean Basin to the United States grew at a healthy annual rate of 22.5 percent from 1983 through 1989, nearly tripling in current terms. This rate of growth appears to be quite as much as the designers of the CBI might have expected.

-- The export base of the region diversified considerably, with the share of NTEs in total CBI region exports increasing by half, from 46 percent in 1983 to 70 percent in 1988.

-- All the case study countries performed respectably well in this respect, but Guatemala's percentage growth outstripped the others, especially after 1986, and the Dominican Republic lagged considerably, especially in terms of NTAEs.

-- Chile, with no CBI benefits and no A.I.D. export promotion support, performed at about the average level of the CBI case study countries, which was much better than that of all CBI countries considered together.

-- The relative performance of nontraditional export growth in the case study countries is explained in part by the structure and performance of their ASIs, in addition to differences in natural endowments and initial stages of development.

-- Macroeconomic policy appears to be at least as important a factor in the expansion of NTEs as are institutional factors. The Chilean experience with a policy-driven program, the comparisons of export performance with policy stance within the case study countries, and the general regionwide correlation of export growth with positive macroeconomic policies all support this contention.

The general conclusion drawn by the evaluation team from this survey of export performance is that a favorable macroeconomic policy program is likely to be a necessary condition for healthy export growth and diversification, whereas institutional support is likely to be an important contributing condition. In other words, export promotion programs can be effective in a positive policy environment, but they cannot overcome a negative environment.

ANNEX C

PROMOTIONAL INSTITUTIONS AND SERVICES

1. INTRODUCTION

1.1 Overview of Central Issues for Investment and Export Promotion

The focus of this study is on institutions that have received A.I.D. assistance to develop export and investment promotion programs.[1] This issue paper introduces the main issues surrounding such programs, and compares and contrasts the programs studied to address the following issue:

-- What assistance strategy has been pursued by each of the promotional institutions, and how has this strategy been translated into a mix of direct services to firms and other activities?

1.2 Key Questions

Three questions are raised by this issue and are addressed in this section:

1. What strategies have been developed by the promotional institutions supported by A.I.D., and what are the key elements that differentiate these strategies from one another?

2. What services do the promotional institutions provide to firms to implement these strategies, and how does

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[1]The investment promotion institutions included in this study are IPC (Dominican Republic) and CINDE/PIE (Costa Rica). These institutions focus primarily on promoting foreign investment in the manufacturing sector, although they have also worked on selected investments in agribusiness. The IPC also has a contract production program. The export promotion programs include PROEXAG (a regional program for Central America and Panama, based in Guatemala), CINDE/CAAP (Costa Rica), JACC (Dominican Republic), and GEXPRONT (Guatemala). PROEXAG, CINDE/CAAP, and JACC concentrate their assistance on agricultural and agroindustrial products. GEXPRONT serves both agricultural and manufacturing firms. A government institution, CENPRO, serves both foreign investors and local exporters in both the manufacturing and agricultural sectors.

this service mix vary across countries and target groups?

3. What institutional structures have been used to provide these services, and how are structure and service mix related?

1.3 Study Approach

This section is designed to describe the programs studied and to introduce the service categories that underlie the impact analysis in the next section. Although the section is primarily descriptive, it is also intended to set forth the basic options for structuring a promotional institution and the programs implemented by it.

The section does not seek to trace the history of the seven institutions studied nor to describe the institutions in detail. (A brief overview of the institutions studied is included as an appendix to Annex A.) Instead, it is organized around three factors that distinguish the institutions: institutional structure, strategy, and service mix. These factors provide the analytical tools to compare and contrast the various institutions studied and to distinguish the features in each institution's approach that are most likely to be relevant to situations in other countries.

This annex next presents a brief overview of the promotional institutions assisted by A.I.D. in the CBI region (Section 3-2) as an introduction to a more detailed discussion of the structure and service mix offered by each of the seven institutions studied in depth. Section 3-3 examines the institutional strategies in terms of six key factors, and Section 3-4 compares the mix of direct support services offered by each institutions with the resources allocated to each service area. Section 3-5 then draws on the discussion of institutional, strategic, and service mix to contrast the approaches taken by investment promotion and export development institutions. Section 3-6 discusses investment and export promotion institutions in Chile and contrasts them with the A.I.D.-supported institutions.

2. EXPORT AND INVESTMENT INSTITUTIONS SUPPORTED IN THE CBI REGION

In accordance with U.S. Government policy under the CBI, assistance to the nontraditional export sector has been a major focus of A.I.D. programming in the CBI region. An analysis of A.I.D. programming for trade and investment worldwide found that

A.I.D. project and nonproject assistance to Central America and the Caribbean with an export or investment promotion focus has been more than $250 million since 1980[2].

This assistance has taken a number of forms, depending on the A.I.D. country development assistance strategy, the availability of assistance funds, and macroeconomic conditions in the country. In the majority of cases, the assistance strategy for nontraditional exports has included assistance to one or more promotional institutions. These institutions may be classified into five categories:

-- Government units and parastatal organizations;
-- Existing associations, such as chambers of commerce;
-- A.I.D.-sponsored associations;
-- A.I.D.-sponsored private entities; and
-- Free-standing programs (project implementation units not associated with a specific local institutions).

Figure C-1 identifies some of the institutions in the CBI region that have received assistance.

Support to these institutions has absorbed a large share of A.I.D.'s total investment in export and investment promotion. For example, funding for CINDE has accounted for approximately 20 percent of total funding for export and investment promotion in Costa Rica.

Assistance to promotional institutions has generally been supplemented with support to one or more of the following areas: (1) policy dialogue and analysis; (2) technology generation, dissemination, and training (particularly in the agricultural sector); (3) credit funds and institutions; and (4) regulation of trade, including customs reform.

By contrast, relatively little funding has been expended in the following areas: (1) transportation infrastructure, (2) public utilities and other infrastructure, and (3) graduate education in business or technologies related to export markets.

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[2]This figure must be regarded as indicative only, for two reasons. First, support to nontraditional exports was not the only sector receiving assistance under many of the projects implemented as part of the CBI. The proportion of project expenditures attributable to export and investment promotion is not always clear. Second, this figure excludes most of the cash transfer and balance of payment activities that have been a major focus of assistance in the region, although many of these programs have included policy dialogue aimed at least in part at shifting macroeconomic and regulatory policies toward an export-oriented regime.

Figure C-1. Promotional Programs Supported in the CBI Region

Country	Governmental Unit	Existing Association	A.I.D.-Sponsored Association	A.I.D.-Sponsored Private Entity	Free-Standing Program
Belize		BEIPU (CoC)		BABCO (Ag)	
Costa Rica	CENPRO			CINDE	
Dominican Republic	CEDOPEX		JACC (Ag)	IPC	
Eastern Caribbean	ECIPS			CATCO	HIAMP, PDAP
El Salvador				FUSADES	
Guatemala		GEXPRONT, CAEM			PROEXAG
Haiti				PROMINEX	
Honduras			FEPROEXAH (Ag)	FIDE	
Jamaica				JAMPRO	

This report focuses on assistance to promotional institutions, in particular on the promotional programs that these institutions have undertaken. The report seeks to answer the question, are these programs worth supporting? The sections below lay out the conceptual tools for analyzing the strategic focus and service mix of investment and export promotion institutions.

3. DISTINGUISHING STRATEGIC FACTORS

3.1 Key Strategic Factors

The approach chosen to promote exports and export-oriented investment is shaped by choices in six key strategic areas, which differ in the degree to which they are under the institution's control:

1. Level of Targeting. An institution may target a few product groups for intensive assistance, or it may attempt to provide assistance across the board. Equally important, an institution may choose to target a specific clientele (foreign, local, large, or small firms, for example). Some institutions are highly targeted, focusing primarily on one clientele group, with five or fewer product groups, whereas others may have as many as 30 or 40 "priority" products, or no stated priorities at all.

2. Emphasis on Direct Services. The majority of services examined in this study are services provided directly to firms or individuals. However, many of the institutions also provide indirect assistance through lobbying for policy and regulatory reforms.

3. Level of Proactiveness. Some of the institutions take an active approach to identifying and providing services to potential clients, whereas others are reactive. The more proactive tend to develop concrete strategies for attracting foreign investment or working with local exporters. Reactive institutions respond to requests as received. The level of proactiveness shapes the type of resources--human and financial--required to implement the institution's chosen strategy.

4. Reliance on a Membership Base. The group of institutions and projects in the study includes both member and nonmember organizations. The need to respond to and maintain a membership base has important

implications for an institution's targeting and service mix, particularly for young institutions for which membership growth is a primary goal. Institutions that lack a formal membership base may nonetheless be interested in developing a clientele for fee-based services, making them behave more like membership organizations.

5. Use of Outside Consultants versus Development of In-house Expertise. A fundamental issue for all institutions is the extent to which it relies on outside resources (such as consultants) for providing strategic, technical, and administrative assistance. Outside assistance can be used during the start-up phase of operations (strategic planning, setting up internal systems, training staff) or continually through managerial or technical support. Availability and quality of local personnel, levels of program funding, and scope of the organization's work all influence the ability to develop in-house expertise.

6. Country Export Experience. The promotional strategy and subsequent mix of services offered by each of the institutions is influenced by the level of previous experience that the country has in a particular activity or sector. For example, when CINDE/PIE and the IPC began operations in the mid-1980s, the Dominican Republic was much better known as an offshore investment site for light manufacturing than was Costa Rica, a difference that substantially influenced the investment promotion strategies pursued by each of the institutions during the past few years.

Besides these key features, other characteristics influence an investment or export promotion strategy. For example, some institutions may have shorter than expected impact horizons. Although investment decisions can often take up to one to two years, once the decision is made an offshore assembly plant can be completed and running almost at capacity within one year, creating both jobs and export revenues. Necessary modifications and adaptations in the production line can be made daily or sooner. This is not true for agricultural export promotion, which usually has a longer time horizon. Varietal trials must be conducted for specific locations and modifications in cultural practices tested, sometimes with only one production season per year. Weather conditions add another level of uncertainty in the agricultural sector.

3.2 Strategic Orientation of A.I.D.-Supported Institutions

Table C-1 classifies the A.I.D.-supported institutions studied in terms of these six strategic characteristics, using a "high/medium/low" scale. This classification is necessarily subjective and is based on the study team's assessment of each institution's strategy, based on interviews and document review. The institutions are arrayed from left to right, with those on the left ranking "high" on more factors than those on the right.

Several patterns emerge from this simple analysis. First, the independent private entities and the project implementation unit provide highly targeted services, while the membership institutions and the government unit do not. The level of product targeting appears to be limited by the need to develop and maintain a broad-based constituency. For investment promotion institutions such as CINDE/PIE and the IPC, this tendency is strengthened by the lack of a sector-specific client. The constituencies that directly benefit from their efforts (free zone or industrial park developers with space to lease or sell) benefit from any new investment, regardless of product type. Therefore, the institutions are free to target their efforts onthe most promising product groups, based on their goals of employment generation, technology transfer, and so on.

Membership and government programs also appear to be less proactive than do private institutions, which confirms the common-sense expectation that the level of proactiveness is related to the level of targeting. Targeting often involves developing a tightly defined strategy to provide customized, resource-intensive service (i.e., services that are costly and can be provided to only a limited number of firms). Membership and government-run organizations have difficulty providing these services, to the extent that they would require the exclusion of other members who do not receive them. As a result, these organizations tend to be more reactive, providing what is referred to below as "standardized," less resource-intensive services.

No clear patterns emerge regarding the other strategic factors identified.

4. DESCRIPTION OF SERVICES

The strategic factors identified above determine which firms will receive assistance, and influence how that assistance will be provided. The institution must still decide which services to offer. Most services are equally suitable to an intensive, customized, targeted approach or to a response-driven, untargeted

Table C-1. Overview of Strategic Factors for Selected A.I.D.-Supported Institutions

Strategic Factor	CINDE/PIE	IPC	CINDE/CAAP	JACC	PROEXAG	GEXPRONT	CENPRO
Level of targeting[a]	High	High	High	Med/Low	High	Medium	Low
Emphasis on direct services[b]	High	High	Medium	Med/High	High	Medium	Low/Med
Level of proactiveness[c]	High	Med/High	Med/High	Low/Med	High	Medium	Low
Importance of developing membership base[d]	Low	Med/High	Low	High	Low	High	Low
Use of Outside Consultants							
During start-up	Med/High	Med/High	Low	Low	High	Low	Low
Ongoing programs	Low	Medium[e]	Medium	Medium	High	Medium	Low
Previous experience in the market[f]	Medium	Med/High	Low/Med	Medium	Low/Med	Low/Med	Low

[a]High = 5 products/crops or fewer; Medium = 6 to 15 products/crops; Low = more than 16 products/crops.
[b]High = provides primarily direct services; Low = provides direct services as well as indirect support, e.g., lobbying and policy reform.
[c]High = more proactive approach; Low = more reactive approach.
[d]High = membership development one of primary goals; Low = membership development not a concern.
[e]The IPC uses little outside expertise in its foreign investment promotions but is heavily dependent on the IESC for its contract production program.
[f]The extent of previous experience the country had in the sector or with the products/crops with which the organization worked.

Source: Consultant survey.

approach. For example, technical assistance can take the form of ad hop advice by a staff member in response to a member query, or it can be offered as part of a carefully tailored package of assistance to a firm identified as a priority.

4.1 Definitions of Services

The study team defined 32 specific services as the basis for the field survey. These services were grouped into five major categories:

1. Information,
2. Private Sector Contacts and Referrals,
3. Export and Investment Promotion Support Services,
4. Technical Assistance and Training, and
5. Governmental Facilitation

This section presents a brief overview of each of the five categories, as defined for the purposes of this study. (More detailed descriptions of the 32 specific services can be found in the glossary at the end of Annex A). Although every effort was made to apply these definitions strictly across countries, institutions, and individual companies, for the survey as well as for the collection of cost data from the institutions and projects, there was inevitably a certain degree of overlap across service categories.

"Information" includes both general and sector- or product-specific information, transmitted through printed materials (brochures, magazines, trade journals, newspapers), electronic media (videos, databases), personal consultations (with local or overseas offices), or observational trips to foreign markets, as well as information on prices in foreign markets.

"Private Sector Contacts and Referrals" encompasses (1) referrals for professional services (legal, accounting, translation services), (2) access to directories of potential investors or importers--including qualifying directories such as The Red Book or Dun and Bradstreet, and (3) more active, time-intensive efforts to assist companies in locating potential investors and buyers such as trade shows, commercial missions, and deal-making.

Many private and public entities provide support services to companies during the pre-investment, start-up, and/or ongoing phases of new investment or export ventures. Included in "Export and Investment Promotion Support Services" are market research, site visit support, feasibility studies (financing or preparation, or both), and help in obtaining financing, as well as

legal, accounting/auditing, recruitment, and expatriate relocation assistance.

"Technical Assistance and Training" includes technical assistance in production, post-harvest handling, processing, marketing, and management. Technical assistance in marketing is strictly defined as "assistance in labeling, packaging, shipping, and distributing the product." Identification of and negotiation with potential buyers comes under "Private Sector Contacts and Referrals." The kinds of training covered include seminars, workshops, courses, field days, but not in-house, on-the-job training.

"Governmental Facilitation" covers assistance that investors or exporters receive in dealing with local or foreign governments and the accompanying legal and regulatory framework. This includes both direct assistance in solving immediate problems and completing official requirements, for example, centralizing bureaucratic procedures in a "one-stop shop" or providing access to appropriate governmental officials, and indirect assistance through medium- and long-term efforts in lobbying and policy reform to ensure a favorable investment and operating environment in the future.

Aside from the services provided directly to foreign investors and local exporters, most of the seven institutions and projects also undertake various efforts that are designed to support the export sector generally, rather than assist a particular firm. These activities are termed "indirect services" in this report, in contrast to the "direct services" described above. Indirect services include promotional efforts (e.g., advertising and publicity campaigns), lobbying, and research on technical and policy issues. While a fee could conceivably be charged for every direct service, fees are not possible for indirect services, either because they are public goods (lobbying) or because they are not viewed as a service by the recipient (promotion). With the exception of lobbying, these activities were not included in the survey of services used by investors, but their costs were included in the institutional budget analysis.

The distinction between direct and indirect activities is often difficult to draw in practice. The best example is seen in the promotional efforts of CINDE/PIE and IPC. These two institutions perform two roles. One is to try to make foreign firms aware of Costa Rica or the Dominican Republic as a potential investment site; the other is to provide information to a client (an investor) after he or she shows interest in the country. Many of these promotional activities--cold calls, advertising, and direct mailings, for example--would not be characterized as services by the recipients. Nonetheless, many of the materials developed for the promotional activities are

also useful to the firms receiving them, and can be provided on request as a service to firms that are actively considering investment. The point at which a firm shifts from being a target of promotion to being a client of the institution is far from clear.

Other examples of indirect activities that complement the direct services include the following:

-- PROEXAG's post-harvest handling specialist has spent substantial time during the last 6 months promoting an integrated pest management program among growers in Central America, for example, convening growers and encouraging them to finance the program. No action has been taken yet, but PROEXAG's efforts have been important in helping growers keep up with the latest technology.

-- In conjunction with the Cámara Empresarial de Guatemala (CAEM--the Guatemalan chamber of commerce), GEXPRONT has played a significant role in the approval of new laws governing the free zone and maquilla industries. GEXPRONT has also played an important role in the negotiation of lower freight rates for exporters.

-- CINDE/CAAP has been involved in lobbying the government to improve air cargo and infrastructure at the airport.

-- During 1988 and 1989 an average of 300 to 400 persons from both the public and private sectors attended each of JACC's Agribusiness Promotional Field Days ("Encuentros Agroempresariales"). The objective of these day-long, field day/public relations events is to promote investment in agricultural exports, identify current and emerging constraints, and promote the image and knowledge of the sector to a wider audience in the Dominican Republic. They also provide a valuable opportunity for private contact-making and informal business discussions.

4.2 Resource-Intensiveness of Services

Within each service category, there are some services that tend to be less resource-intensive ("packaged" or "standardized" services) and others that are generally more resource-intensive and "customized." This distinction appears to be closely related to the distinction between a proactive institutional strategy (with more customized services) and one that is primarily reactive (and relies more heavily on standardized services). Table C-2 presents the team's estimate of which services are most

Table C-2. Distribution of Services by Level of Resource Intensity

Service Category	Low Intensity	High Intensity
1. Information	1.1 Printed information 1.2 In Country Question and Answer 1.5 Foreign market information	1.4 Overseas representation
2. Private Sector Contacts/Referrals	2.1 Directories/Referrals 2.4 Buyer contacts (e.g., trade leads bulletins)	2.2 Deal-making 2.3 Trade shows 2.4 Buyer contacts (e.g., trade missions)
3. Export/Investment Support Services	3.3 Expatriate facilitation 3.7 Recruitment services	3.1 Market research 3.2 Site visit support 3.3 Legal assistance 3.4 Accounting assistance 3.5 Credit assistance 3.6 Feasibility assistance
4. Training/Technical Assistance (TA)	4.4 Training	4.1 TA/Production 4.2 TA/Marketing 4.3 TA/Management
5. Government Facilitation	5.1 One-stop shop 5.2 Approval/paperwork 5.3 Government contacts 5.4 Customs assistance 5.5 Post-investment troubleshooting	5.5 Lobbying/Policy Reform

Note: Level of financial and human resource invested per unit of assistance.

Source: Consultant estimates.

consistent with a less resource-intensive strategy, and which are more appropriate for a more resource-intensive approach.

Each service category generally includes both high-cost and low-cost services. For example, "Information" includes ready-to-use printed materials as well as more time-consuming personal consultations or observational trips. Under "Private Sector Contacts and Referrals," allowing an exporter to use a directory of foreign buyers requires little time and money, while taking the exporter to a trade show may involve weeks of preparation. The specific export and investment support services offered can vary in level of effort, depending on the client's needs. Programs with less funding may choose to offer more low-cost, generalized training activities or group technical assistance rather than higher-cost individualized technical assistance.

These generalizations are supported by the unit cost estimates gathered from budgetary information provided by each organization. Because of the wide variation in the way each service was provided by each organization (or even within a specific institution) and lack of comparable data on the level of each service provided, it proved impossible to calculate meaningful unit cost estimates that would be comparable across institutions, projects, countries, and time for most of the services. In many cases, the unit is difficult to standardize: are trade shows measured in terms of shows, number of firms attending the show, or number of firms receiving intensive assistance to prepare for the show? Given these limitations, the estimates of unit costs shown in Table C-3 must be regarded as illustrative of the lower and upper range for services within the five broad categories.

Table C-3 shows the average unit cost estimates for various services provided by the investment promotion and export promotion institutions and projects in this study. Unit costs are discussed in more detail in Annex E, but one important caveat regarding these costs must be repeated here: these estimates are an attempt to capture the "break-even" cost of each service, including the institution's total overhead. The overhead calculation includes costs associated with institution-building and indirect services (e.g., lobbying), as well as purely administrative costs.

Given the lack of comparability across institutions, the team has chosen not to identify which institutions provided the information underlying these estimates.

The "Information" category illustrates the wide variation possible in providing a seemingly straightforward service. Printed information such as association magazines, price bulletins, or basic cost data, can be provided for approximately $50 or less per inquiry. By contrast, sector- or firm-specific

materials, such as detailed investment project profiles or an on-site presentation to a U.S. investor, may cost thousands of dollars.

Table C-3. Unit Cost Estimates for Selected Services From A.I.D.-Supported Institutions[a]

	Range of Unit Costs (US$)
Information	
Printed Information	25-2,951
In country Q&A (phone)	21
Overseas Representation	1,728
Foreign Market Information (prices)	11
Private Sector Contacts/Referrals	
Trade Shows	4,337
Buyer Contacts	434-7,769
Deal Making (Trade)	1,179
Investment/Export Support Services	
Market Research	2,459
Site Visit Support	1,538-8,265
Technical Assistance (TA)/ Training	
TA Production/Processing	1,204-2,582
TA Marketing	1,765
Training	167-237

[a]Figures represent burdened unit costs. The unit of measurement is the total number of brochures, pamphlets, and sector profiles published for printed information and foreign market information. The unit base for all other services is the number of persons or firms assisted.

Source: Financial budgets from the institutions.

4.3 What Types of Services Are Provided by ASIs?

An inventory of the services provided by ASIs reveals many similarities across investment promotion and export promotion institutions. As shown in Table C-4, all seven organizations offer the following three services:

1. General and/or specialized printed materials,

2. Participation in or organization of trade shows, and

3. Contact-making with potential buyers.

These common features reveal the assumptions that underlie the design of promotion institutions. First, the exchange or lack of exchange of information is basic to attracting foreign investors and making exporters aware of opportunities. Foreign investors need to know about cost advantages and the investment climate in a country. Local exporters need to find buyers for their products. Depending on the avenue pursued, these services can also be provided at relatively low cost (see Section 4.2).

Other services provided by six of the seven programs include some form of overseas representation, information on foreign markets, directory referrals, and government facilitation.

Again, these services share the common goal of overcoming market inefficiencies and are relatively cheap, with the exception of overseas representation. This service offers investors and exporters the opportunity to inquire and learn more about a market. Foreign market information and directory referrals provide easily accessible data. Finally, government facilitation puts businesspersons in touch with appropriate government officials to resolve specific problems.

Although the seven institutions or projects provide some common services, they differ in the priorities and financial resources that each institution or project assigns to the various service areas. This difference in expenditures highlights the main differences between investment and export promotion institutions. Table C-5 provides a summary of the 1989 expenditures of the seven institutions by the five major service categories.

In general, the investment promotion programs, IPC and CINDE/PIE, concentrate on providing information to investors. More than 70 percent of 1989 expenditures for both institutions went to this category. (This includes the cost of promotion, e.g., advertising, publicity, cold calls). This emphasis conforms to their primary mandate, which is to inform and "sell" foreign investors on the attractiveness of each country's investment climate. Investment promotion institutions spent twice as much of their overall budget on support services[3] as did export promotion institutions.

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[3]Market research, site visit support, feasibility studies, help in obtaining financing, legal services, accounting, recruitment, and expatriate relocation assistance.

Table C-4. Services Provided by A.I.D.-Supported Institutions

	CINDE/ PIE	IPC	CINDE/ CAAP	JACC	PROEXAG	GEXPRONT	CENPRO
1. Information							
1.1 Printed Information	X	X	X	X	X	X	X
1.3 In-Country Question and Answer	X	X	X	X	X	X	
1.4 Overseas Representation	X	X	X		X	X	
1.5 Foreign Market Information		X	X	X	X	X	X
1.6 Other - Exporter Orientation and Motivational Information					X		
Other - Information/ Marketing Trips				X			
2. Private contact making/Referrals							
2.1 Directories/Referrals	X	X		X	X	X	X
2.2 Deal-making (investments)	X[a]	X		X			
2.3 Trade Shows	X	X	X	X	X	X	X
2.4 Buyer Contacts		X	X	X	X	X	X
2.5 Other - Deal-making (trade)		X		X	X		
3. Export and investment support services							
3.1 Market Research (for firm or assoc)			X	X	X		
3.2 Site Visit Support	X	X		X	X	X	
3.3 Expatriate Facilitation	X	X					
3.4 Legal Assistance			X	X	X		
3.5 Accounting Assistance				X	X	X	
3.6 Credit Assistance	X[b]	X[b]		X	X		
3.7 Recruitment Services	X[c]	X[c]		X			
3.8 Feasibility Study Assistance			X	X			
4. Technical Assistance/ Training							
4.1 Production/Processing	/[d]	X[e]	X	X	X	X	
4.2 Marketing		X	X	X	X	X	
4.3 Management		X	X	X	X	X	
4.4 Training		X	X	X	X	X	
5. Government Facilitation							
5.1 One-stop shop							X
5.2 Approval/paperwork				X			X
5.3 Governmental contacts		X	X	X		X	X
5.4 Customs Assistance	X	X	X				
5.5 Lobbying/policy reform (national)	/[f]	X	X	X		X	
5.6 Post-investment trouble-shooting	X	X	X				
5.7 Other - lobbying policy/ regulatory reform (foreign)				X	X		
Other - USDA/APHIS Pre-inspection program				X			

[a] Very limited assistance provided by CINDE/PIE in later 1989 under the "Impulso Industrial" Program.
[b] In the cases of CINDE/PIE and the IPC, credit assistance is limited to providing information on sources of credit, for example, local credit or 936 funds.
[c] For these institutions, recruitment services consist primarily of referrals. It has not become a fee-based service as in the case of the free zone operators or local employment or headhunter agencies.
[d] In Costa Rica, technical assistance and training in the industrial sector are carried out by the Industrial Development Unit of CINDE.
[e] Most of IPC's technical assistance to contract manufacturers is provided in conjunction with the International Executive Service Corps (IESC).
[f] In Costa Rica, lobbying in the industrial sector is carried out by CINDE/CENTRAL.

Source: consultant interviews with institutions.

Table C-5. 1989 Expenditures of A.I.D.-Supported Institutions and Projects

Service Category	CINDE/PIE US$000	%	IPC US$000	%	CINDE/CAAP US$000	%	JACC US$000	%	PROEXAG[a] US$000	%	GEXPRONT US$000	%	CENPRO US$000	%	Total US$000	%
Information[b]	2,753.51[c]	71[d]	1,404.65	75	668.5	18	160.2	33	140.68	18	189.36	19	228.55	38	5,545.45	45
Private Sector Contacts/Referrals	147.64	4	149.34	8	225.86	6	13.1	3	140.68[e]	18	389.01	39	189.33	32	1,254.96	10
Export/Investment Support Services	944.45	24	314.40	17	461.56	12	159.4	33	0	0	79.79	8	0	0	1,959.60	16
Technical Assistance/ Training	0	0	0[f]	0	1,776.42	48	150.8	31	502.04[g]	64	339.01	34	0	0	2,768.27	22
Governmental Facilitation[h]	54.05	1	0	0	570.9	15	0	0	0	0	0	0	176.65	30	801.60	7
Total	3,899.65	100	1,868.39	100	3,703.24	100	483.5	100	783.41	100	997.16	100	594.53	100	12,329.88	100

Note: Overhead and administrative expenditures for each institution/project have been distributed among the various service categories. In the case of CINDE/PIE and CINDE/CAAP, a portion of CINDE/CENTRAL's cost has been allocated to their services as well.

[a] Estimated expenditures for the Guatemala program plus a percentage of costs for regionwide activities, based on level of effort in person-months.
[b] Includes publicity and advertising expenditures for CINDE/PIE and the IPC.
[c] CINDE/PIE figures include expenditures for overseas offices. The overseas offices also provide referrals and investor support.
[d] Includes staff time spent not only on responding to potential investors and buyers, but also in receiving observational groups from A.I.D.-funded investment and export promotion institutions in other countries, as well as foreign consultants and local students and researchers.
[e] Includes what PROEXAG calls "technical assistance" in marketing but, by the definitions of this study, is considered to be "private sector contacts," or buyer contacts.
[f] The costs of technical assistance provided under IPC's contract production program are almost entirely borne by the IESC.
[g] Includes technical assistance and training in production, post-harvest handling, and processing.
[h] Nearly all of the institutions do some form of "governmental facilitation: in the form of lobbying, whether covert or overt. However, it was not possible to separate these costs (usually a portion of the director's time) for all of the institutions.

Source: 1989 financial budgets provided by the institutions.

Investment promotion programs also spent much more overall than did their export promotion counterparts. 1989 combined expenditures of the two investment promotion institutions ($5.8 million) were nearly as much as the five export promotion institutions or projects combined ($6.6 million)[4].

On the average, export promotion programs allocated by far the largest share of their resources (42 percent) to technical assistance and training, and spread the remainder among information, private sector contacts, support services, and governmental facilitation. Organizations dedicated solely to the agricultural sector (CINDE/CAAP, JACC, PROEXAG) spent nearly half (49 percent) of their budget on technical assistance and training, whereas those working with both the agricultural and manufacturing sectors (CENPRO and GEXPRONT) spent more heavily on private sector contacts or referrals (36 percent) and provision of information (26 percent). These findings reflect two important facts about export promotion: (1) exporters vary significantly in their level of preparation for the export market (some may need only price information or qualified contacts, whereas others need a complete "overhaul") and (2) export promotion, except for a small percentage of businesses, requires much more than marketing assistance, and technical assistance and training are essential components of a successful program.

5. MIX OF INSTITUTIONAL STRUCTURES, STRATEGY, AND SERVICES

The institutional structures of investment and export promotion programs influence the type of strategy and service mix provided. The distinctions among programs were more notable for export promotion programs; investment promotion programs tended to be far more similar in terms of both strategy and service mix.

5.1 Investment Promotion Institutions

At first glance the two investment promotion institutions, CINDE/PIE and IPC, appear very similar. Both IPC and CINDE/PIE are independent, private institutions that receive 90 percent or more of their funding from A.I.D. Both are highly targeted programs that emphasize working actively with foreign investors, primarily in the manufacturing sector. During the start-up phase, both institutions relied on foreign consultants for strategic guidance but now rely mainly on local staff (although IPC has a full-time foreign resident adviser, and CINDE/PIE has

[4]JACC, PROEXAG, GEXPRONT, CENPRO, and CINDE/CAAP.

access to part-time foreign advisers).[5] Finally, both CINDE/PIE and IPC offer essentially the same list of services. The major areas of assistance are country information, question and answer, site visit support, and assistance with government approvals. In terms of resource allocation, both of the institutions spend more than 90 percent of their budgets on the larger categories of information and investor support services.

Despite these similarities, the two programs differ fundamentally in one area: country's previous experience with foreign investment. When CINDE/PIE and the IPC began full-scale promotional programs in the mid-1980s, the Dominican Republic was much better known as an offshore investment site for light manufacturing than was Costa Rica. The Dominican Republic already had a well-established free zone sector, mostly American-owned. This inpouring of foreign investors, including Gulf & Western, which developed and, until recently, operated the country's first private free zone, served to promote the country as an offshore investment site in certain sectors such as apparel, electronics, shoes, and cigars. Unlike in Costa Rica, the Dominican Republic's reputation as an investment site preceded the promotion services offered by IPC.

Because of this difference in investment experience, the two programs followed different promotional strategies. When the IPC program began in 1986-87, self-promotion and marketing by new privately owned free zones were already attracting a steady flow of potential free zone investors to make initial site visits to the Dominican Republic. Because of this strategic advantage, the IPC allocates most of its time and resources to in-country support such as personal consultations and site visit support. Promotion in the United States is both indirect, through advertisements in trade journals, and direct, through attendance at trade fairs and about 10 to 15 highly targeted on-site company presentations. The IPC has one representative in the United States, who mostly responds to requests for information (drop-in visitors, written requests, toll-free calls).

Conversely, CINDE/PIE has had to face a quite different set of circumstances. Costa Rica had very little foreign investment in light manufacturing in the mid-1980s, and CINDE/PIE realized that under these conditions, its promotional program had to carry out two functions: (1) generate an awareness of Costa Rica among investors and (2) convince investors of the attractiveness of the country.

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[5]IPC also depends heavily on IESC volunteers for its contract production program, although this activity is more closely related to export promotion than are investment promotion programs.

The main promotional tool used to carry out the two functions was the establishment of overseas offices. Fortunate to have significantly higher funding levels than those of the IPC,[6] CINDE/PIE chose to develop its program based on aggressive marketing efforts by overseas representatives. In 1989 overseas offices accounted for 57 percent of CINDE/PIE's total expenditures. From these offices CINDE/PIE's promoters have conducted major "cold calling campaigns" and made hundreds of on-site company presentations, urging potential clients to make site visits to Costa Rica. CINDE/PIE staff tend to take a more direct approach to initiate contacts with investors. Currently CINDE/PIE has six overseas offices located in the United States, Europe, and Asia.

The overseas offices of CINDE/PIE are supplemented by a more expensive and diffuse advertising and publicity campaign. Although both IPC and CINDE/PIE advertise in lower-cost trade journals (a very specific audience), CINDE/PIE has also placed several advertisements in more costly general business publications such as the Wall Street Journal. This advertising is driven by the need to develop a good image and appeal to a more general audience.

Nonetheless, it should be noted that IPC's staff stated that they would establish overseas offices if they could afford to do so.

The final distinction between the IPC and CINDE/PIE is how each institution provides technical assistance and works on policy reform issues. The IPC provides both services within a single organization, although it relies heavily on the IESC for technical assistance, market information, and deal-making assistance to locally based contractors in apparel, electronics, and shoes. CINDE has established separate institutional units for each of these services.

5.2 Export Promotion Institutions

There is much less uniformity among the export promotion institutions than among the two investment promotion institutions. This is primarily due to the different structures of each institutions. As a result of these structural differences, these institutions or project implementation units differ, in some cases quite significantly, in the types of services they offer.

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[6] In 1989 CINDE/PIE's budget was more than double that of the IPC--$3.9 million versus $1.9 million.

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The five institutions vary greatly in their legal structure. Two institutions are private-sector member associations (JACC and GEXPRONT) that receive up to 40 percent of their funds from membership contributions. CINDE/CAAP is an independent private-sector entity that is funded entirely by A.I.D. PROEXAG is also funded entirely by A.I.D., but its project implementation unit focuses on long-term technical assistance provided by foreign consultants. The other institutions, however, rely more on in-house capability established through local staff and use foreign consultants only intermittently. Finally, CENPRO is a governmental unit that works with both local exporters and foreign investors.

These structural differences have direct implications for the promotional strategies and service mix provided by each of the institutions. Membership organizations have more difficulty in implementing a highly targeted program focused on a small number of products or crops. Exporter associations such as JACC and GEXPRONT want to develop and maintain a membership base, and for both institutions membership development has been an important priority during the past one to two years. Deciding which products or crops to concentrate on has been difficult, because doing so necessarily means excluding a portion of membership from the more costly services such as technical assistance and marketing efforts. Their budgetary resources tend to be allocated much more evenly across several service categories.

PROEXAG and CINDE/CAAP[7], conversely, have more freedom to target the crops with which they will work, and both PROEXAG and CINDE/CAAP spent much higher percentages of their 1989 budgets on technical assistance and training (64 percent and 48 percent, respectively) than did the other organizations. A more selective audience allows them to provide a higher-value, more integrated, complete package of assistance. One example of a highly targeted service is the information gathering and marketing trips to the United States and Europe organized by PROEXAG for local exporters of berries and cut flowers.

Another advantage of being a nonmembership, highly targeted organization such as CINDE/CAAP or PROEXAG is the ability to establish more highly specialized overseas representatives or offices. GEXPRONT's overseas representatives in the commercial attaché offices of their embassies have limited time to spend on marketing efforts. No matter how qualified these representatives may be, they cannot be expected to be specialists in a wide variety of industrial products and agricultural crops. However,

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[7]Although CINDE/CAAP is not a membership organization, it is concerned with development of a clientele for future fee-based services; this may have an impact on targeting as the pressure for fee generation increases.

CINDE/CAAP's focus on agriculture has made it easier to have a full-time agricultural specialist in the Miami office who is able to play a much more active role in marketing and troubleshooting for Costa Rican exporters.[8] Similarly, PROEXAG's contractors and subcontractors in the United States, as well as its representative in Europe, have been able to provide timely, first-hand information on foreign markets for specific products and assist in the coordination of the various information gathering and marketing trips.

The primary advantage of membership, or locally staffed institutions, lies in their capability to represent the interests of the export sector by maintaining government interest and support for nontraditional export programs. As local private sector institutions, CINDE/CAAP, JACC, and GEXPRONT have played a major role in lobbying for policy and regulatory reforms in their respective countries. In contrast, PROEXAG, with a primarily foreign senior staff and an emphasis on direct, long-term technical assistance has played a supportive but not overt role in reforms in Guatemala. However, PROEXAG provides some leadership on regional issues such as transportation and has actively worked with U.S. government agencies to improve access to agricultural products from the region.

A final link between structure and service is illustrated by the case of CENPRO, the sole government agency included in the study. CENPRO differs from the other institutions and projects in that its primary function is regulatory. As a result of its mandate it is by nature (1) general and nontargeted, working with both foreign and local exporters across all product sectors, (2) focused on regulatory services such as the one-stop shop and export contract approvals, and (3) dependent on providing lower-cost, prepackaged information. CENPRO offers little direct exporter support through consultations or technical assistance, and, by its nature, cannot lobby.

6. CHILEAN EXPERIENCE

All the A.I.D.-supported institutions are relatively new to investment and export promotion. Most of the institutions started operating in the early to mid-1980s. The novelty of A.I.D.'s experience in promotional programs leads one to wonder, how do these institutions compare with other promotional programs? This section provides illustrative though cursory comparisons with promotional programs in Chile, a country that

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[8]El Salvador's FUSADES provides a similar service through its Miami representative.

has been cited as one of the most successful in Latin America in generating nontraditional export growth.

6.1 Institutional Overview

The research team informally evaluated several Chilean export and investment promotion institutions. Although these institutions could not always provide detailed cost and performance information to the team, a comparison of their general costs and their means of export and investment promotion with those of the ASIs is instructive. The institutions identified and reviewed include the following.

-- ProChile is a relatively new public-sector export promotion agency with strong formal and informal ties to the private sector. Founded in 1977, it is part of the Ministry of Foreign Affairs and expends about three-quarters of its $5.2 million annual budget on direct promotion abroad. Its objective has been strictly export promotion for Chilean firms, but it is currently expanding its program to include support of the Investment Commission (described later). ProChile's major domestic organizational entities are the sectoral committees, headed by private-sector representatives, with access to ProChile staff, which are responsible for advising and directing foreign promotion efforts.

-- Fundación Chile is a private foundation, with a $50 million endowment, half originally provided by International Telephone and Telegraph (ITT) and half by the Government of Chile. Its fundamental objective is the promotion of Chilean exports through providing technology transfer coupled with indigenous technological development. In addition to providing direct technical assistance and training, the foundation actually funds and operates new firms, privatizing them as they become viable. For this reason, the annual expenditures of Fundación Chile vary significantly, although operating expenses and capital allowances average about $5.0 million a year, well within the current funding provided by the endowment.

-- Corfo is a public-sector-development corporation charged with domestic investment promotion. An older agency than the others discussed here, it has been charged with several responsibilities in addition to direct promotion, including economic planning, credit distribution, and channeling multilateral aid. It also served as the holding company for Chilean state-owned firms, but that responsibility has gradually diminished as a result of

privatization in recent years. Nevertheless, because its responsibilities are so much broader than those of other institutions analyzed in this report, its financial performance is not comparable, nor are its general activities.

-- The Investment Commission is a multiministerial foreign investment promotion agency, functioning also as a one-stop shop. It only recently began full-scale operations and therefore is not included in our later analysis. Early reports are quite favorable.

-- The Exporters' Association is a private-sector chamber with no apparent public-sector support. It serves in addition as an umbrella organization for more narrowly focused industrial chambers that do appear to receive some multilateral support.

In the following sections, as well as in our statistical analysis presented in other annexes, we will concentrate on ProChile, Fundación Chile, and Corfo. These programs are considered to be the most prominent organizations and ones that were best able to provide the most current information on their activities.

6.2 Comparison with A.I.D.-Supported Institutions

A.I.D. typically tries to provide assistance to both foreign investors and local exporters. In Costa Rica, CINDE/PIE focuses on investment promotion with foreign firms, whereas CINDE/CAAP targets its assistance towards local exporters. In the Dominican Republic IPC works with foreign investors and JACC works with local exporters. For political and practical reasons, A.I.D. programs generally cover all their promotional bases.

In Chile there is greater focus on developing and promoting exports of local goods. All three of the largest institutions, ProChile, Fundación Chile, and Corfo, direct their resources toward overseas promotion, technical assistance, and investments for local enterprises. With few exceptions, these institutions seek to accomplish one or both of two goals: (1) promote surplus capacity of existing firms and (2) invest in and develop export capacity in new or existing firms. Following is a brief description of the export development and promotion activities carried out by the three prominent institutions.

-- ProChile. ProChile is the central export promotion agency in Chile. It concentrates its promotion efforts in part through the sectoral committees made up of

private sector exporters. Although there are approximately 30 committees representing 10 sectors, in practice very few receive emphasis at once. For example, in its earlier years ProChile emphasized fruit (and especially grape) export promotion but now believes that this industry can stand alone. In the future, forestry-based products may receive more emphasis. ProChile's export promotion, however, is not so narrowly focused by destination; the agency has 28 foreign representative offices on five continents. Less than 20 percent of the country's exports are destined for the United States, compared with greater than 50 percent for the remaining case study countries.

-- Fundación Chile. Fundación Chile focuses mostly on technology transfer and start-up ventures. It distributes technical assistance and aid to both domestic and foreign investors, whether or not currently producing, and it passes on its "graduating" enterprises to any qualifying investor. Its programs are very tightly focused, both in product targeting and technological development. It concentrates on 4 or 5 development programs simultaneously, for example, salmon farming, fishmeal biotoxicology, and fruticulture quality control. It develops its own target technologies and markets and seeks appropriate investors as production processes reach the appropriate stage, but it does not attempt to develop a permanent membership base.

-- Corfo. Corfo, a government agency stands as a counter-example to more modern Chilean institutions. It has taken a broad, unfocused approach to investment development, through both target products and promotional tools. The distribution of credit and program funding has apparently responded to political as opposed to market incentives, resulting in nonmarketable products (e.g., Chilean rabbit fur) and an uncollectible loan portfolio. Currently, the agency's primary contribution to private investment promotion is its disinvestment in formerly state-owned companies.

Each of these institutions exhibits many of the key strategic and service mix elements found in the A.I.D.-supported institutions.

6.2.1 Key Strategic Factors

In general, the Chilean institutions fall into the same categories as do the ASIs. As shown in Table C-6, the most targeted Chilean institutions are those that either work directly

Table C-6. Overview of Strategic Factors for Selected Chilean-Supported Institutions

	ProChile	Fundación Chile	Corfo
Level of targeting[a]	High	High	Low
Emphasis on direct services[b]	Medium	High	Low
Level of proactiveness[c]	High	High	Medium
Importance of developing membership base[d]	Low	Low	Low
Use of outside consultants			
During start-up phase	Low	Low	Low
Ongoing programs	Low	Medium	Low
Previous experience in the market[e]	Medium	Medium	Low/Med

[a]High = 5 products/crops or less; Medium = 6 to 15 products/crops; Low = more than 16 products/crops.
[b]High = provides primarily direct services; Low = provides direct services as well as indirect support, for example, lobbying and policy reform.
[c]High = more proactive approach; Low = more reactive approach.
[d]High = membership development one of primary goals; Low = membership development not a concern.
[e]The extent of previous experience the country had in the sector or with the products/crops with which the organization worked.

Source: Consultant estimates.

with private exporter associations (ProChile) or receive a large percentage of their funding from private sources (Fundación Chile). Corfo, the oldest and most deeply aligned with the government, is the least targeted of the Chilean institutions.

High targeting seems to correlate to the level of proactiveness, although to a lesser extent than that found in the ASIs. Similar to CINDE/PIE and PROEXAG, ProChile and Fundación Chile have the most proactive programs. They clearly define their strategies and focus on providing a heavy dose of "customized," resource-intensive services. Corfo's program was proactive because it invested directly in companies; increasingly, however, these investments are being privatized. As mentioned earlier, as a result of a lack of targeting and a clearly defined investment strategy, the allocation of credit has often responded more to political than to market forces.

The final distinguishing feature of the Chilean institutions is that they rely almost exclusively on Chilean consultants for all their overseas promotion and most of their local technical assistance. This may be due to two factors. First, Chile has had more experience in the agricultural export sector than have many of the A.I.D.-supported countries. Second, the pool of qualified of technical specialists is larger in Chile.

6.2.2 Service Mix

In applying the strategic factors discussed previously, the Chilean institutions provide many of the same services as do the ASIs. As shown in Table C-7, the most important services provided by Chilean institutions include the following.

1. Information services. All three Chilean institutions provide most of the information services, that is, printed information, in-country question and answer, overseas representation, and foreign market information.

2. Trade shows and buyer contacts. Both ProChile and Fundación Chile concentrate much of their activity on making buyer contacts and promoting trade shows.

3. Training efforts. All three institutions disseminate information, both on markets and technical issues, through seminars. Except for Fundación Chile, which provided extensive technical assistance, training programs were the only direct means used for transferring knowledge.

4. Heavy lobbying functions. ProChile and Fundación Chile have both played major roles in lobbying both the Chilean

Table C-7. Services Provided by Chilean Promotion Institutions

	ProChile	Fundación Chile	Corfo
1. Information			
1.1 Printed Information	X	X	X
1.3 In-Country Question and Answer	X	X	X
1.4 Overseas Representation	X		
1.5 Foreign Market Information	X	X	
1.6 Other - Exporter Orientation and Motivational Information	X	X	
Other - Information/ Marketing Trips			
2. Private Contact Making/Referrals			
2.1 Directories/Referrals	X		
2.2 Deal-making (investments)		X	X
2.3 Trade Shows	X	X	
2.4 Buyer Contacts	X	X	X
2.5 Other Deal-making (trade)			
3. Export and Investment Support Services			
3.1 Market Research (for firm and association)			
3.2 Site Visit Support			
3.3 Expatriate Facilitation			
3.4 Legal Assistance			
3.5 Accounting Assistance			
3.6 Credit Assistance			X
3.7 Recruitment Services			
3.8 Feasibility Study Assistance		X	
4. Technical Assistance/Training			
4.1 Production/Processing		X	X
4.2 Marketing		X	
4.3 Management		X	
4.4 Training	X	X	X
5. Governmental Facilitation			
5.1 One-stop shop			
5.2 Approval/paperwork			
5.3 Governmental Contacts			
5.4 Customs Assistance			
5.5 Lobbying/policy reform (national)	X	X	
5.6 Post-investment troubleshooting			
5.7 Other-lobbying policy/regulator reform (foreign)	X		
Other-USDA/APHIS Pre-inspection program	X		

Source: Consultant interviews with institutions.

and foreign governments. ProChile is currently the main advocate for a lawsuit case being brought against the U.S. Government for "conspiring" to keep Chilean grapes out of the U.S. market. Fundación Chile has worked on canceling export taxes and improving local standard quality control procedures.

These similarities suggest that regardless of the type of market or sector an institution focuses on, the package of services tends to be quite standard. In the case of Chile the package consists of strong information sources, foreign buyer contacts, some training and capable lobbying. Essentially similar packages are used by many of the ASIs. Anecdotal evidence suggests that the ProChile overseas offices are useful for making direct contacts with wholesalers and supervising shipments into foreign markets. The extensive network of offices operated by ProChile suggests that as a country becomes an established exporter (as is the case with Chile), the number of promotional offices that can be used effectively can expand.

The Chile experience also suggests that institutions can be effective by being targeted and focusing on only one or two promotional objectives. The institutional mandate of ProChile or Fundación Chile does not encompass too many objectives. ProChile focuses on promoting Chilean agricultural products, whereas Fundación Chile focuses on developing new export capacity. Neither group tries to overextend itself by trying to serve too many groups. Also, unlike Corfo, neither ProChile nor Fundación Chile has had to mix economic objectives with political objectives.

7. CONCLUSION

This review of A.I.D.-supported institutions and the Chilean institutions identifies four basic institutional structures that can be developed: (1) membership organizations (JACC, GEXPRONT), (2) government units (CENPRO, CORFO, ProChile), (3) independent private entities (CINDE/PIE, IPC, CINDE/CAAP, and Fundación Chile), and (4) project implementation units (PROEXAG).

The services provided within each of these structures appear to be similar. Most programs provide a package of services that includes information about the country, specific sectors and foreign markets, private sector contacts with foreign buyers, trade shows, training, and some liaison work with government agencies.

For investment promotion organizations, the service emphasis is on information (to which more than 70 percent of the CINDE/PIE and IPC budgets is allocated) and site visit support. The goal

of investment promotion institutions is to contact and bring foreign investors into the country promotional net. Information provided through direct mailings, cold calls, and general advertising make investors aware of a country. Site visit support helps the investor to develop a more detailed understanding of the country.

The major difference in investment promotion institutions is not what services to provide, but how to provide them. Countries that are well known as offshore investment sites probably do not have to expend as much on overseas offices and advertising to make investors aware of the country. At the same time, the experience of Chile in export promotion suggests that even as a country develops a reputation, it is still possible to put overseas offices to good use by focusing on new sectors. In this sense, the "success" of investing in overseas offices depends on the institution's ability to identify, target, and promote sectors and product areas in which the country does not yet have a recognized reputation.

In export promotion programs, the service focus tends to be on foreign market information, training, technical assistance, and contacts with buyers. Within this service mix, the level of targeting and customization of these services can vary depending on the type of institutional structure. For example, membership and government units are less likely to target and provide customized services. Unlike private units, their institutional mandate requires them to provide services to a variety of clients. This lack of targeting results in greater emphasis on standardized services (i.e., services provided in the same form to a large number of clients--directory referrals, trade shows, general training programs) instead of customized services (buyer contact field trips, technical assistance, etc.).

ANNEX D

SERVICE USE AND ITS IMPACT ON EXPORT PERFORMANCE: EVIDENCE FROM THE SURVEY

1. INTRODUCTION

1.1. Overview of Central Issues for Investment and Export Promotion

Export and investment promotion programs generally include three components, in varying combinations:

-- Direct services to potential or current investors and exporters, such as technical assistance, information, deal-making, and training;

-- General promotion of foreign investment and/or export expansion through advertising campaigns, distribution of literature, and other mechanisms designed to attract new investors or encourage existing firms to export; and

-- Lobbying for policies and government expenditures favorable to export, including encouragement of government investment in infrastructure and incentives and jawboning with private interests, such as freight cartels.

This study focuses primarily on direct services to firms. Nonetheless, it should be emphasized that the line between direct services and other, indirect support to investment and trade is not always sharply defined. A brochure describing free trade zones in the Dominican Republic, for example, may serve both as a general promotion piece for distribution in direct mailings and trade fairs and as a part of its package of direct assistance provided to potential investors seeking assistance. Despite this overlap, the distinction between promotion and services remains a useful one, as is emphasized in previous analyses of promotional programs.[1]

This issues paper seeks to answer the question:

-- What direct services should be provided by programs to promote trade and investment?

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[1] See, for example, Wells, Louis T., Jr., and Alvin G. Wint. Marketing a Country: Promotion as a Tool for Attracting Foreign Investment, World Bank (draft), Nov. 1988.

1.2. Key Questions for Evaluating Service Use and Its Impact

This issues paper draws on the discussion of promotional institution strategies in Annex C to address four basic sets of issues that lie at the heart of program design, both for the promotional institutions themselves and for the donors considering financial support to them. The discussion in this annex is organized around these issues.

-- Overall service use. What services have been used, which services have been the most valuable to firms, and how has service use differed across different types of firms?

-- Source of services. What services have been provided to their clients by ASIs[2] and how important have the ASIs been as a source of services, particularly those viewed as having an impact by the firms?

-- Service impact. Has the assistance made a difference to firm performance or investment decisions?

-- Service mix. How well does the service mix offered by ASIs match firm needs? Do ASIs supplement or compete with private sources of services?

1.3. Study Approach to Resolving These Questions

This issues paper relies primarily on the survey of 152 agricultural and light manufacturing firms in the three CBI countries: 105 assisted by the promotional institutions and 47 drawn from the general population of exporting firms (referred to as "unassisted firms"). This information is supplemented by the findings of a similar questionnaire administered to 10 firms in Chile and by phone to 16 firms suggested by promotional institutions in Barbados, Belize, El Salvador, and Honduras.

The survey generated a wealth of data on these issues. The task of this paper is to summarize the findings and present them in a readily comprehensible but nonsimplistic way. This task is not as simple as it might appear. Each question must be answered for each of the 32 services, the four major recipient groups (assisted and unassisted agricultural and manufacturing firms), the four levels of impact (none, minimal, some, and critical), and the three service sources (ASIs, public sector, and private

[2] A.I.D.-supported institutions.

sector). On each issue, there are thus over 1,500 data points. In trying to pull relevant conclusions from this mass of information, we have inevitably excluded many interesting and potentially useful points. The team hopes that A.I.D. will be able to continue the analysis of the data set beyond the point permitted by the resources available to us.

To assist the reader in following the discussion, we have varied the format used in the other issues papers by presenting the major conclusions first, followed by the data on which those conclusions are based, and completing the discussion with an analysis of the match between service mix supported by A.I.D. and the needs of the firms. However, further analysis of implications for A.I.D. trade and investment programming is reserved for Annex G.

Much of the following discussion focuses on the 105 assisted agricultural and manufacturing firms surveyed in Costa Rica, Guatemala, and the Dominican Republic, but information provided by other survey groups is added when it contributes to answering the questions raised above. The discussion focuses on the 105 surveyed firms both because the survey's findings are most reliable for this larger and more cohesive sample, and because this sample represents the groups that A.I.D. programs have targeted. The survey methodology and content is further described in Annex A.

In this annex, as in other components of the evaluation, data on Chilean firms and institutions were not included in the initial database but were analyzed separately, as an informal "control environment" with non-A.I.D.-assisted promotion institutions. Similarities and differences between the Chilean experience and that of the CBI region countries are presented at appropriate points in the following discussion. It should be emphasized that the small size of the Chilean sample--10 firms, divided evenly between manufacturing and agriculture and between assisted and unassisted firms--requires that the findings be viewed as illustrative, rather than as a strict control.

2. MAJOR CONCLUSIONS REACHED

The statistical analysis presented below supports seven major conclusions regarding service use and its impact on exporting firms.

1. The firms assisted by the ASIs studied use and value the services received, particularly those that provide information on the country and the sector, buyer contacts, and information on foreign markets. Foreign

firms also value support services, particularly assistance in arranging site visits. These services are also used and valued by the firms in the unassisted sample, but they do not use them as much as do the assisted firms.

2. Local agricultural firms, in particular, rely on the services received from ASIs: more than 50 percent of the services cited by assisted agricultural firms as having an impact were provided by ASIs. Agricultural firms were also found to use a different mix of services than do those in the manufacturing sector. The agricultural firms also valued technical assistance (TA) more highly than did the manufacturing firms, although all assisted firms used TA to a greater extent than did the unassisted firms.

3. The mix of services used differs greatly between local and foreign-owned firms, with the former relying more heavily on information about foreign markets, buyer contacts, and technical assistance, and the latter finding information on the country, site visit support, and help with government approvals to be the most useful among the services offered by promotional institutions.

4. Service use is associated with greater increases in exports and employment, and the relationship is stronger among assisted firms than among unassisted firms. In addition, the services that are used most often and perceived as important by assisted firms turn out to be significantly and positively related to increases in exports and employment. Overall, service use explains approximately 29 percent of the variation in firm performance.

5. The mix of services provided by the Chilean institutions, and used by Chilean firms, differed from that of the CBI region institutions in two key respects: it was much more narrowly focused on a few key services and was more heavily weighted toward off-shore private contacts (trade shows, overseas representation, and buyer contacts). These differences appear to reflect the greater input of the private sector into the Chilean institutions, confirming the value of services that help firms to learn about and make contact with their counterparts overseas.

6. Services that can be provided on a standardized basis, particularly those in the areas of information and private contacts, appear to be highly valued by the

firms and highly correlated with actual export performance, even though the impact of standardized services is more difficult to document; these services should not necessarily be downplayed relative to more customized services where the link between assistance and firms' investment decisions is more easily documented.

7. ASIs adequately provide services that their clients value, but two shifts in emphasis appear likely to improve the fit with client needs: (1) export promotion organizations should consider shifting resources away from technical assistance (which is valued, but very expensive per firm served) and toward information, private contacts, and government facilitation; and (2) investment promotion organizations should consider increasing the emphasis placed on private contacts and government facilitation.

These findings confirm some aspects of the conventional wisdom and provide useful new insights into other areas. They underpin the study's definition of five institutional models that appear to have the greatest viability and impact, discussed in Annex G.

3. USE OF SERVICES

Because much of the following discussion deals with survey data on service use and impact, it may be helpful to repeat the service categories used in this study for the convenience of the reader. The survey was based on five categories of service (discussed in detail in Annex A).

Broad Category	Specific Services Included
Information	Printed information on the country, printed sectoral information, in-country Q&A, overseas representation, information on foreign markets
Private contact-making	Directories and referrals, deal making for joint ventures, trade shows, buyer contacts

Broad Category	Specific Services Included
Investment/export support services	Firm-specific research, site visit support, expatriate facilitation, legal assistance, accounting, credit assistance, recruitment, feasibility studies
Technical assistance	Production/processing, marketing, management, training
Government facilitation	One-stop shop, approvals/paperwork/ incentives, government contacts, customs assistance, lobbying/policy reform, post-investment trouble-shooting

Because many of the study findings regarding service use relate to the broad categories of services, we will identify the group to which specific services belong by the abbreviations I for information, C for contacts, S for support services, T for technical assistance, and G for government facilitation, as well as by the service descriptors (e.g., in-country Q&A).

3.1. What Services Are Used the Most?

Service use by the assisted firms is summarized in Table D-1, which compares the number of services received in each category by assisted firms in each sector. This table demonstrates that the assisted firms use a fairly diverse mix of services, but make the greatest use of information and investment/export support.

Table D-1. Number of Services Received by Assisted Firms in Each Service Category

	Agricultural		Manufacturing	
	Number	% of Total	Number	% of Total
Information	3.3	27	2.7	24
Private Contacts	2.1	17	1.4	12
Investment/Export Support	2.4	20	3.4	30
Technical assistance	2.2	18	1.4	12
Government facilitation	2.0	17	2.6	23
Total	12.0	100	11.4	100

Source: Study survey.

Table D-2 shows the services most heavily used by the assisted firms. More detailed information is presented in Tables D-17 to D-25 at the end of this Annex.[3]

Table D-2. Services Used Most Frequently

By Assisted Agricultural Firms	By Assisted Manufacturing Firms
Printed sectoral information (I)	Printed country information (I)
Foreign market information (I)	Printed sectoral information (I)
Buyer contacts (C)	In-country Q&A (I)
Production TA (T)	Legal assistance (S)
Training (T)	Customs assistance (G)

Source: Study survey.

The survey findings on service use were generally confirmed by the more limited phone survey of firms in other CBI countries. In particular, these firms' responses confirmed the importance of assistance with market information (I) and buyer contacts (C). In contrast to the firms surveyed in the three case study countries, firms in the other CBI countries tended to give greater emphasis to credit assistance (S). The study does not have sufficient information on the situation in each of these countries to determine whether this reflects the less developed

[3]This table reports only service use that was statistically different from zero. For normal random variables, we used the shortcut method recommended by Thomas and Ronald Wonnacott, Introductory Statistics for Business and Economics (2nd ed.), John Wiley and Sons (New York), 1977. This method, in spreadsheet notation, is: $+/- t_{0.025} * (s/[(n)^0.5])$, where s is the sample variance and n is the number of observations. For differences in these means, we used the shortcut suggested by the same source for cases where the population variances are unequal and unknown: $(X_1-X_2) +/- t_{0.025} * ([(s^2_1/n_1) + (s^2_2/n_2)]^0.5)$, with (n-1) degrees of freedom. This shortcut is less than ideal statistically, but is the most practical option available to deal with situations where the true population sizes are unequal, but unknown. For binomial proportions, we used the conservative method of calculating a 95 percent confidence interval for samples between 25 and 100 observations recommended by Wonnacott and Wonnacott (p. 224): $+/- (0.98/[(n)^0.5])$. In selecting these approaches, we also consulted Frederick Mosteller, Robert Rourke, and George Thomas, Jr., Probability with Statistical Applications (2nd ed.), Addison-Wesley Publishing Co. (Reading, Mass.), 1970.

state of capital markets in the other countries or an operating environment that is simply less profitable, causing the firms to look for cheaper sources of financing in order to maintain viability.

3.2. Do Assisted Firms Use Services Different From Those of Unassisted Firms?

The pattern of service use did not differ greatly between assisted and unassisted firms. Unassisted firms use the same services as assisted firms, but at a lower rate. Table D-3 lists the services for which usage rates differed by more than 20 percentage points between assisted and unassisted firms.

Table D-3. Services Used by Assisted Firms Compared With Those of Unassisted Firms

	Agricultural Sector		Manufacturing Sector	
Service	More than Unassisted Firms	Less than Unassisted Firms	More than Unassisted Firms	Less than Unassisted Firms
Credit help (S)				X
Deal-making (C)		X		
Expat. facilitation (S)			X	
Feasibility studies (S)			X	
Government contacts (G)	X		X	
Management TA (T)			X	
Market research (S)			X	
Post-investment help (G)			X	
Printed information (I)	X			
Production TA (T)	X			
Recruitment (S)		X	X	
Site visits (S)			X	
Trade shows (C)	X			

Source: Study survey.

In both cases, assisted firms tended to draw more heavily than the unassisted firms on services requiring relatively more intensive, customized assistance, such as production technical assistance (T), site visits (S), and market research (S). These services are generally available only from promotional institutions such as those studied, or, if they are available from the private sector, fees tend to be fairly high.

3.3. Do Agricultural Firms Use Different Services from Those of Manufacturing Firms?

The survey confirms that agricultural firms use different services than do manufacturing firms.

Services that agricultural firms use more than do manufacturing firms include foreign market information (I), trade shows (C), buyer contacts (C), firm-specific research (S), production technical assistance (T), marketing technical assistance (T), and training.

Manufacturing firms use the following services more than do agricultural firms: site visits (S), expatriate facilitation (S), legal assistance (S), recruitment (S), government contacts (G), customs assistance (G), and post-investment help (G).

Overall, agricultural firms tend to use more technical assistance services than do manufacturing firms, but to use other investment/export support services and government facilitation at a lower rate. Firms in both sectors make heavy use of information services, at about the same rate.

3.4. Does Size or Firm Ownership Affect Service Used?

Size and ownership had a greater impact on service use among manufacturing firms than among agricultural firms. In many ways, the survey found small or locally-owned manufacturing firms to be more like agricultural firms in their use of services than like larger or foreign-owned firms in their own sector. Size and ownership have much less impact on the type of services used by agricultural firms (although foreign firms use somewhat more services than do local firms). Table D-17 in the Appendix presents the statistical basis for these findings.

3.5 Service Use in the Chilean Case

The pattern of service use among Chilean firms was similar to that of the other three countries, but differed in that Chilean firms tended to concentrate their service use on a smaller range of services:[1]

-- Services apparently utilized more often by Chilean firms included overseas representation (I), trade fairs (C), and (for manufacturing firms) market information (I) and buyer contacts (C).

-- In each category of exporting firms, six to nine services were utilized by all firms surveyed, five to six were utilized by more than half, and the rest were not utilized at all.

-- Fewer sectoral differences in service use appeared among Chilean firms. Ten of the twelve services utilized by all of the firms in one of the four categories were utilized by all of the firms in at least two other categories. Among assisted firms, the same services were used intensively in both sectors.

Overall, Chilean promotion institutions tend to focus their promotion programs more tightly, offering fewer services more intensively to a clearly and narrowly clientele. This pattern of service delivery may be due in part to the small size of the institutions relative to the Chilean external sector, but both ProChile and Fundacion Chile stated that this is their approach.

4. SOURCE OF SERVICES USED

The ASIs were an important source of support services for the assisted group, as shown in Table D-4.

Table D-4. Percentage of All Services That Were Provided by an ASI

	Agricultural Firms	Manufacturing Firms
Information	63	50
Private contacts	49	40
Investment/export support	12	12
Technical assistance	65	11
Government facilitation	54	21
All services	49	26

Source: Study survey.

The survey found that the ASIs are a more important source of services for the agricultural firms than for the manufacturing firms. Agricultural firms cited the ASIs as the source of almost half of the total support services received, while the

manufacturing firms relied on the ASIs for only one-quarter of the total services they used.

ASIs were the major source of information services and private contacts for both groups, but the leading source of technical assistance and government facilitation only for the agricultural firms. ASIs were much less important as a source of investment and export support services such as legal assistance, market research, and credit assistance.

The survey found that agricultural and manufacturing firms differ in the sources relied on for services, as well as in the services used. Table D-5 summarizes the source of services for each of the four main groups in the survey.

Table D-5. Source of Services to Exporting Firms
(Average Number of Services Used)

	Agricultural		Manufacturing	
	Assisted	Unassisted	Assisted	Unassisted
Public Sector	1.2	1.9	0.9	1.1
A.I.D.-Supported Institutions	5.9	2.1	3.0	1.1
Private Sector	4.8	6.7	7.5	6.6
Total	12.0	10.8[a]	11.4[a]	8.8

[a]Not significantly different from the assisted agricultural firms at the 95 percent confidence level.

Source: study survey

These findings suggest that ASIs are not displacing private sector sources for the manufacturing firms, but may be doing so in the agricultural sector. The assisted manufacturing firms received more services overall and more services from the private sector than did the unassisted firms, whereas the assisted agricultural firms received only slightly more services overall than did the unassisted firms, and received fewer services from the private sector.

4.1. What Services Provided by ASIs Are Used by the Most Firms?

Agricultural firms differ from manufacturing firms in the services they receive from the ASIs, as they do in their overall service use, as shown in Table D-6.

Table D-6. ASI Services Used by More than 30 Percent of Assisted Firms

	Agricultural		Manufacturing	
	Small	Large	Small	Large
Information				
Printed information	X	X	X	X
Sectoral information	X	X		
In-country Q&A	X	X		
Overseas representation				X
Private Contacts				
Trade shows	X		X	
Buyer contacts	X	X		
Investment/Export Support				
Site visits				X
Technical Assistance				
Production TA	X	X		
Marketing TA	X	X		
Training	X			
Government Facilitation				
Government approvals		X		
Government contacts		X		
Lobbying		X		

Source: Study survey.

4.2. What Heavily Used Services Are Not Provided by ASIs?

There is substantial room for promotional institutions to improve the match between the services provided by the ASIs and those used by their clients, as shown in Table D-7.

The fact that the ASIs are not the leading source of services used by exporters and investors does not necessarily imply that the ASIs should move aggressively to expand their services in these areas. Some of the areas most heavily used, such as legal and accounting assistance (S), are adequately covered by the private sector, and ASI services in these areas would unnecessarily compete with and duplicate this assistance.

In other service areas, by contrast, the team believes that an increased level of services should be considered to meet needs that are not served by other organizations. These include, in particular, buyer contacts (C) and foreign market information (I), both of which are heavily used by exporting firms and not readily available from another source.

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Table D-7. Services for Which ASIs Provide Less than Half of the Total Used by Assisted Firms

	Agricultural	Manufacturing
Information		
Sectoral information		X
In-country Q&A		X
Foreign market information	X	X
Private Contacts		
Directories	X	
Buyer contacts	X	X
Investment/Export Support		
Market research	X	X
Expatriate facilitation		X
Legal assistance	X	X
Accounting	X	X
Credit assistance	X	X
Recruitment		X
Feasibility studies	X	X
Technical Assistance		
Production TA		X
Training		X
Government Facilitation		
Government approvals		X
Government contacts		X
Customs assistance	X	X
Lobbying		X
Post-investment help		X

Note: Excludes services used by less than 20 percent of the sample.

Source: Study survey.

The ASIs that serve the manufacturing sector might also consider expansion of government facilitation services if resources are available, as these services appear to be in high demand by their clientele and are available only to the larger firms served by the more sophisticated professional service firms. The agricultural organizations, however, might consider expanding their informational and contact-making services or restructuring the way they provide these services to reach a larger share of their clientele. Here again, the services appear to be in high demand and to be difficult for small, local firms to acquire from other sources.

4.3 Source of Services in Chile

The pattern of service provision by the promotional institutions studied in Chile is similar in some respects to that of the ASIs described earlier.

-- Assisted agricultural firms tend to use more services from the promotional institutions, as they do in the other case study countries. Services from these institutions account for 89 percent of the services received by assisted agricultural firms but for only 14 percent of those received by unassisted agricultural firms. Among manufacturing firms, even the assisted group receives only 31 percent of its services from the promotional institutions, while the unassisted group receives 21 percent of its services from them.

-- These services tend to be grouped fairly closely by source. Agricultural firms tend to go to ProChile for information and contact services, to Fundacion Chile for technical assistance, and to Corfo for credit. Manufacturing firms--even the "assisted" firms--apparently use the services of promotional institutions less often, with no more than 50 percent of them using any single service.

These patterns of service use are clearly attributable to the well-defined specialties of the institutions themselves. Fundacion Chile and ProChile, in particular, have carefully targeted their programs, both in terms of clientele and service design. Corfo, however, offers a more broadly defined range of services to more clients: it is surprising that more firms do not report experience with this agency.

5. IMPORTANCE OF SERVICES RECEIVED

5.1. Which Services Were Important Overall?

The survey assessed importance on a scale of 1-4, with 3 meaning that the service had an impact on the firm's operations and a 4 meaning that it was critical to the firm's export activity. Table D-8 indicates the services rated as most important in the survey, measured by the average score received:

Table D-8. Services Rated as Having the Greatest Impact by Assisted Firms

Agricultural Firms	Manufacturing Firms
Sector-specific information (I)	Printed country information (I)
Foreign market information (I)	Legal assistance (S)
Buyer contacts (C)	Customs assistance (G)
Production TA (T)	In-country Q&A (I)
Training (T)	Training (T)
Trade shows (C)	Approvals/paperwork/incentives (G)

Note: Shown in descending order of importance; see Table D-16 in the data appendix to this paper for the average scores awarded by the firms to each service.

Source: survey data

The match between the importance of the services as rated by the firms and the mix of services provided by the ASIs is clearly much closer for the agricultural firms than for the manufacturing firms. With the exception of assistance in attending trade shows (C), none of the services provided to the manufacturing firms was considered to have an impact by one-third or more of the recipients. By contrast, 11 services were ranked as having an impact by at least one-third of the agricultural firms in one of the four categories used for analysis (small, large, foreign, and local) and three services were ranked as having an impact by more than one-third of the total sample (one information service and two technical assistance services: in-country Q&A, production TA, and training).

5.2. Important Services Received from ASIs

The services provided by ASIs generally figured among the most important services received by the assisted firms surveyed, as shown in Tables D-9 and D-10. Table D-9 demonstrates that the ASIs provided valued services to a relatively large share of agricultural firms, but to a much smaller share of manufacturing

firms. For example, 44 percent of all assisted agricultural firms received technical assistance for production and stated that it had an impact on their operation. Table D-10 shows that, among firms that received and valued specific services, the ASIs were an important source for both agricultural and manufacturing firms. For example, an ASI was the source of the assistance for 63 percent of the assisted agricultural firms that received technical assistance that had an impact on their operations.

Table D-9. Firms Stating That the Service Received from an ASI Had an Impact as a Percentage of All Assisted Firms

Assisted Agricultural Firms	Percent
Technical assistance for production (T)	44
In-country Q&A (I)	44
Training (T)	39
Sectoral information (I)	33
Buyer contacts (C)	30
Assisted Manufacturing Firms	
Printed information on the country (I)	26
Support for site visits (S)	21
In-country Q&A (I)	18
Overseas representation (I)	16
Sectoral information (I)	14

Source: Study survey.

Table D-10. Firms Receiving the Service from an ASI as a Percentage of All Firms Stating the Service Had an Impact on Export Operations

Assisted Agricultural Firms	Percent
Technical assistance for production (T)	63
In-country Q&A (I)	90
Training (T)	65
Sectoral information (I)	64
Buyer contacts (C)	62
Assisted Manufacturing Firms	
Printed information on the country (I)	61
Support for site visits (S)	59
In-country Q&A (I)	42
Overseas representation (I)	62
Sectoral information (I)	43

Source: Study survey.

The firms' responses to the survey indicate that the services received from ASIs do have an impact, and that this impact is substantially greater for agricultural firms (particularly small and local firms) than for manufacturing firms. Overall, 48 percent of the important services received by agricultural firms were provided by ASIs, compared to only 23 percent of the important services received by manufacturing firms. All firms regarded the services received from ASIs as important, however: 77 percent of the services provided by ASIs to agricultural firms were rated as having an impact by manufacturing firms, as were 60 percent of the services provided to agricultural firms.

These results suggest that the assisted agricultural firms have relied more heavily on the ASIs for services that had an impact than have the manufacturing firms. More agricultural firms received services that they regarded as having an impact, in comparison to the manufacturing firms, and the ASI was a somewhat more important source for these services.

This finding should not be interpreted too hastily as supporting interventions in the agricultural sector over those in the manufacturing sector. The evidence presented below on the relative performance of the assisted and unassisted firms in each sector and the evidence linking assistance to this performance should be taken into account before deciding which sector, if either, has the stronger claim on donor resources.

5.3 Perceived Importance of Services Provided in Chile

Chilean firms rated highly many of the same services that firms in the other countries did, but valued market information, representation abroad, and trade shows more highly than did their CBI region counterparts. These valuations are consistent with the patterns of use described above and probably result from the same programmatic basis: the available Chilean promotion institutions offer a highly specialized menu of options, and one that is valued by the recipients.

6. SERVICE IMPACT ON PERFORMANCE

The previous section demonstrates that the firms value the services received, both overall and with respect to services received from ASIs. The firms identified several services that, in their view, contributed to their export operations. The next two sections examine the impact of services in more detail. This section looks at whether assisted firms actually do better than unassisted firms and, if so, whether they credit the assistance

from the ASI for their success. The next section will use statistical techniques (correlation and multiple regression) to explore whether the linkage between assistance and performance stands up under more rigorous scrutiny.

6.1. Do Assisted Firms Outperform Unassisted Firms?

The survey found that both the assisted manufacturing firms and the assisted agricultural firms have generally outperformed the unassisted firms in generating growth in export sales, as summarized in Table D-11 (and detailed in Table D-18 in the appendix).[4] As a result of the more rapid growth experienced by the assisted manufacturing firms, their exports are currently more than 50 percent greater than those of the unassisted firms, reversing the situation that prevailed three years earlier (when unassisted firms' exports were slightly greater).

Table D-11. Assisted Firms Generally Outperformed Unassisted Firms

	Agricultural		Manufacturing	
	Assisted	Unassisted	Assisted	Unassisted
Exports in Thousand Dollars				
Three years ago	722	1265	806	884
This year	1097	1753	2528	1598
Expected in three years	2450	3229	4672	3262
Total Full-Time-Equivalent Jobs				
Three years ago	141	137	210	212
This year	192	258	298	224
Expected in three years	302	352	480	322
Percentage growth experienced over the past 3 years				
Exports	52	39	214	81
Employment	37	87	42	6

Source: Study survey.

In the agricultural sector, the assisted firms started out with a much lower level of exports relative to their unassisted colleagues. They have grown more rapidly than the unassisted firms, but remain at a lower level of exports per firm. The

[4]All of the absolute differences discussed here were found to be significant at the 95 percent confidence level.

assisted firms also expect greater near-term growth in their exports than do the unassisted firms, but the unassisted firms have experienced more rapid growth in employment and are more optimistic regarding their employment growth prospects.

In the manufacturing sector, the assisted firms have experienced greater and more rapid growth in both exports and employment than have the unassisted firms. They anticipate that this more rapid growth will continue in both areas.

Overall, the assisted manufacturing firms have done much better than the unassisted firms, although both groups were in almost exactly the same position three years ago. The agricultural firms were smaller to begin with, but have performed somewhat better in generating exports than the unassisted firms, but not as well in generating employment.

Overall, these findings present a somewhat ambiguous picture of the relative performance of assisted and unassisted firms. On balance, it would appear that the assisted manufacturing firms have done better than the unassisted firms, but that the assisted agricultural firms have fared only slightly better than the unassisted firms, and have not generated as much employment.

We do not have enough information on the sample firms to judge objectively whether the differences in performance are due to the assistance or to other preexisting factors. The remainder of this section examines this issue in more detail, drawing on both the opinions of the managers and statistical analysis of the performance of the firms in the sample.

6.2. Is the Difference in Performance Due to the Assistance?

The study used two different approaches to determine whether there is a linkage between the services provided by ASIs and the performance of the firms:

-- Survey questions: The survey included three measures of ASI impact: (1) firms were asked to rate the impact of each service received on a four-point scale (no impact, minimal impact, some impact, and critical); (2) firms were asked to allocate 100 points among the different sources of assistance, including their own efforts; and (3) firms were asked to rank the overall contribution of relevant ASIs to their investment or export operations, using the same four-point scale as used for the individual services.

-- Statistical analysis: Correlation and multiple regression analyses were performed on the data to explore the statistical linkages among receipt of services from an ASI, importance of the service as rated by the firm, and performance measured in terms of employment and export growth.

This section reports on the three subjective measures provided by the firms. The results of the correlation and multiple regression analysis are reported in the next section.

The firms gave the ASIs substantial credit for helping to make their export activities a success. Table D-12 summarizes the point allocations awarded to the major sources of assistance by the firms surveyed.

Table D-12. Whom Do the Firms Credit for Their Success? (Average Points Awarded out of 100)

	Agriculture		Manufacturing	
	Assisted	Unassisted	Assisted	Unassisted
Private sector	29	18	38	24
Public sector	10	17	9	12
A.I.D.-supported institutions	28	8	22	6
Firm's own resources	33	57	31	58
Total	100	100	100	100

Source: Study survey.

The agricultural firms again gave greater importance to the ASIs than did the manufacturing firms. The manufacturing firms gave more credit to private sector sources (including law firms, agents, accounting firms, and private contacts) than to the ASIs, however, whereas the agricultural firms rated both sources as about equally valuable.

These patterns are generally consistent with the patterns of service use discussed above. The assisted manufacturing firms make greater use of the private sector and rate it more highly than do the agricultural firms. Conversely, the agricultural firms make somewhat greater use of the ASIs and rate them somewhat more highly than do the manufacturing firms.

Turning to the overall ratings awarded to the ASIs by the assisted firms, the picture is mixed. Table D-19 in the appendix

shows the rankings awarded, together with other measures of institutional performance generated by the study for comparison. Only CENPRO receives an average score of 3 (interpreted as "having some impact" on average), and this score may well reflect CENPRO's role in approving financial incentives, rather than as a provider of services valued in and of themselves. CAAP, CINDE/PIE, and JACC receive scores between 2.5 and 3.0, which might be interpreted as a B-, while the others receive scores below this level.

In summary, the survey supports the view that the ASIs provide valuable, but not critical, support to assisted firms in the export sector.

7. STATISTICAL MEASURES OF THE LINK BETWEEN EXPORT PERFORMANCE AND SERVICES

This section estimates statistically the extent to which the use of services is associated with actual increases in exports and employment, using the information collected via the firm questionnaires. Although the resulting measures do not "prove" causality, the existence of a strong positive relation between use of services by exporting firms and subsequent increases in exports and employment by those firms supports the hypothesis that the services bring about an increase in exports.

Because of the high degree of collinearity[5] among the use of the various services by the firms interviewed (firms tend to receive a package of services), it proved impossible to measure the impact of each service individually. It was feasible, however, to identify the set of services most important for increasing exports and employment, and to measure the approximate contribution of that set of services to export growth. To do this, the team first identified the most important services through correlation analysis and then modeled the impact of this service set using regression analysis.

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[5]Collinearity refers to the degree of relationship among the explanatory variables themselves. The greater that degree of relationship, the less applicable are the statistical measures used to differentiate the degrees of importance of explanatory variables.

7.1 Correlations Between Receipt of Services and Export Performance

In order to determine which services are most important for increasing exports and employment, the team analyzed the data using the same four groups as used in other parts of the analysis (assisted and unassisted firms in the agricultural and manufacturing sectors) and calculated correlation coefficients[6] between the receipt of each service, on the one hand, and the rate of growth of exports and firm employment during the past three years, on the other. Calculations were also made for the correlations between service use and the absolute increases in employment and exports for the firms, correcting for firm size[7]. The result was the identification of the set of services most closely related to increases in exports and job growth during the period under study (with significance levels of 95% or greater).

Table D-20 at the end of this issues paper presents the coefficients estimated[8]. The results were generally consistent across firm groupings: 23 services were significantly correlated with exports for at least one category of firm; of these, 13 were significant for two or more of the categories.

We must be careful not to overstate conclusions drawn from simple correlation or regression analysis. Specification error

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[6]Ideally, one would estimate regression coefficients for all services at once, with the rate of growth of exports and labor as dependent variables, but problems with both degrees of freedom and collinearity among the levels of use of services prevented such an estimate.

[7]Simple correlations of service use with absolute export or employment growth are often negative, reflecting the negative correlation between firm size and the use of external services (smaller firms require more services and their absolute increases are smaller). The team corrected for this bias by including initial exports as an indicator of firm size in a two-independent- variable regression for each service, testing for the significance of the service impact with the "t" statistic, instead of the simple correlation coefficient.

[8]As with other components of this evaluation, data from the ten Chilean interviews were not included in the initial regression analyses, since Chile is treated as a control case. Tests performed at a later stage, however, indicated no significant differences in results after including these observations, with one exception, as noted below.

(the omission of additional important explanatory variables) could lead us to place too much emphasis on single relationships. The major purpose served by the initial analysis is to identify which services should be used in more extensive modeling. Nevertheless, several general trends emerged:

-- Most services used by assisted firms are significantly and positively correlated with increases in export volume or employment (76 percent of the services for assisted agricultural firms and 85 percent for assisted manufacturing firms). This supports the view that both the firms and the service institutions are spending resources on export promotion services that matter.

-- Relatively more services are significantly correlated with export performance for assisted firms than for unassisted firms. For example, 90 percent of services used by assisted agricultural firms are significantly correlated with employment increase, compared with 42 percent for unassisted agricultural firms. This result is consistent with several competing hypotheses: (1) assisted firms use services more effectively; (2) the use of export promotion services has a compound effect; or (3) successful firms are more likely to seek outside help.

-- Among assisted agricultural firms, proportionately more services tend to be correlated with employment increase (90 percent) than with export volume increase (62 percent), though both proportions are significant. Among assisted manufacturing firms, the reverse is true: more services are correlated with export volume increase (73 percent) than with employment increase (38 percent). One possible explanation for this difference is that agricultural firms use services that encourage extensive development (e.g., increasing acreage under cultivation) while manufacturing firms choose those that increase labor productivity through greater resource intensity.

-- Although significant differences emerged between the agricultural and manufacturing sectors in service impact in three subareas--certain types of information, preinvestment support, and technical assistance--fully 74 percent of services significantly correlated with export performance in either sector are correlated in both. Three information services (overseas marketing information, overseas representation, and in-country Q&A) tend to be correlated with manufacturing export performance but not with agricultural performance. The same is true for expatriate facilitation (S), a service

more often used by foreign investors, who tend to be manufacturers. In terms of technical assistance, management and training TA tend to have more impact in the manufacturing sector, whereas marketing TA has more impact on agriculture. (Note that TA for production is not significantly correlated with increases in export volume for agriculture).

-- Some services appear more closely related with export volume in a given sector, while others are more strongly linked to employment increase. TA services are positively associated with agricultural employment increases, but not with export volume increases. The opposite is true for manufacturing: TA services are positively correlated with export growth but not with employment increases. Government facilitation also seems to positively affect manufacturing exports but not employment, although it positively affects both employment and exports in the agricultural sector.

These initial correlation results differ somewhat from the firms' perceptions of service impact. Among assisted firms, services perceived to be important are in fact significantly correlated with export performance, but not all services that were significantly correlated with performance were perceived to be important by the firms. Of the eight services most highly ranked by assisted firms, six are significantly correlated with increases in either exports or employment (only buyer contacts (C) and training (T) are perceived as important but are not significantly correlated). Several other services, largely in the preinvestment support group (S), are significantly correlated with both employment and export increases for assisted firms, but were not perceived as important by those firms.

Among unassisted firms, however, there was no correspondence between perceptions of service importance and correlations of service receipt with export performance. None of the services significantly correlated with export volume and employment growth were rated as important by the unassisted firms. At the impressionistic level, this result seems consistent with our tentative conclusion concerning the higher efficiency with which assisted firms use services. Those firms receiving the most complete assistance from export support institutions seem also to be more aware of the services' impact than are those firms requesting and receiving less support.

7.2 Regression Analysis of Extent of Impact of Services

The regression analysis conducted measures the explanatory power of the services received, considering the services as a

set. The use of individual services was too closely related across services to model the impact of services individually. The model used therefore includes the significant services identified in the correlation analysis for each of the four firm groups, with separate estimation for the impact on export volume and employment increase, the dependent variables. The independent variables, in addition to service use, included various structural and environmental variables (such as the country in which the firm operates). Using the composite service variable, it is possible to estimate R^2 and "t" values which cannot be higher than those that would have resulted from regressions on a service-by-service basis. In other words, the composite variable approach yields "minimum values" for the R^2 and "t" values of service usage. We will not be able to compare the significance of individual services, but we will be able to estimate a minimum impact of the package of assistance as a whole.

Following this approach, the team estimated two sets of equations, one set leaving out service use and including only the environmental and structural variables available from the questionnaires (firm size, represented by initial exports or employment; the country of location, represented by dummy variables for Costa Rica, Guatemala, and the Dominican Republic; (3) ownership of the firm, represented by a dummy variable for foreign ownership; and the number of years the firm had been exporting).[9] The team then prepared a second set of estimates including the composite variable for service use, and compared the "t" statistics and R^2s yielded by each set of equations. The results were as follows.

-- Surprisingly, the environmental and structural variables were not significant, except for firm size. In other words the only variables other than service use found to affect increases in exports and employment were the original levels of exports and employment. Neither the countries of origin (with one exception as noted below), the type of ownership, nor the number of years of export experience had significant impacts on export performance.

-- Adding the service use composite to the equation always had increased the equation's explanatory power: the R^2s increased by an average of .29, and the coefficient on service use was always positive and significant at the

[9]Ideally we would also have included some measure of public policy differences affecting the firms, but no such measure was available. The country variable may be viewed as a proxy for policy differences.

95 percent confidence level (see Table D-13). In other words, the level of service use by the firms surveyed explains approximately 29 percent of the firm-to-firm variation in export performance.

-- The dummy variable for Chilean firms was significant and positive for assisted agricultural firms and unassisted manufacturing firms, indicating that their export performance was related to some country-specific influence, perhaps macroeconomic policy. This finding is consistent with the analysis in Annex B, which discusses the positive influence of Chilean economic policy on the volume of nontraditional exports.

Use of export promotion services, then, is significantly and positively associated with export performance, while most background variables we have been able to measure are not significantly associated, either positively or negatively, with firm performance. Among the background variables, only initial firm size and Chilean origin seem to be associated with increases in export volume or employment. It should be noted, however, that the background variables measured by our interviews are quite limited. In particular, we have not been able to include public policy differences, and the dummy variables included may not completely capture those differences. (Policy differences are further discussed in Annex B.)

6. MATCH BETWEEN FIRM NEEDS AND SERVICES PROVIDED BY ASIs

A comparison of institutions' budget allocations across service categories with survey findings on the importance of each service category suggests that the institutions could improve the match between where they spend their money and what the firms want. The implications differ substantially depending on whether the institution's clientele is concentrated in the agricultural or manufacturing sector. (See Table D-14.)

Looking first at the agricultural firms and institutions, it appears that the institutions are spending more on technical assistance and less on government facilitation than warranted by the firms' rankings of service value. JACC has recognized the importance of government facilitation to its members, particularly in the area of import and export clearances, and is moving to establish a one-stop shop for such clearances. These findings also suggest that organizations serving a local clientele might consider a resource allocation that gives more attention than that of the organizations studied to information, private contact-making (particularly buyer contacts), and government facilitation, while decreasing the allocation to

Table D-13. Changes in Explanatory Power of Export Performance Equations Due to Inclusion of Composite Service Variables

Performance Measure and Stratification Group	*R-Squared Without Composite Services*	*R-Squared With Composite Services*	*Difference Due to Inclusion*	*t-Value of Composite Service Variable*
Export Growth:				
Agricultural Assisted	0.015	0.368	0.353	4.53
Agricultural Unassisted	0.264	0.611	0.347	3.97
Manufacturing Assisted	0	0.067	0.067	2.91
Manufacturing Unassisted	0.211	0.37	0.159	2.52
Employment Growth:				
Agricultural Assisted	0.177	0.292	0.115	4.75
Agricultural Unassisted	0.108	0.614	0.506	3.62
Manufacturing Assisted	0	0.09	0.09	3.94
Manufacturing Unassisted	0.158	0.407	0.249	4.87

Source: Study Survey and team analysis.

Table D-14. Comparison of Budget Resource Allocations

	Information	Contracts	Investment/ (%)	Assistance	Facilitation
% of All Important Services Received from A.I.D. Supported Institutions					
Agricultural firms	34	17	5	25	19
Local manufacturing firms	36	33	0	10	21
Foreign/JV manufacturing firms	47	13	19	3	18
% of budget					
CINDE/CAAP	18	6	12	48	15
CINDE/PIE	71	4	24	-	1
CENPRO	38	31	-	-	30
PROEXAG	18	18	-	64	-
GEXPRONT	19	39	8	34	-
IPC	75	8	17	-	-
JACC	33	3	33	31	-

Source: Study Survey and individual ASI financial statements.

investment and export support services and, in particular, technical assistance.

The findings in the manufacturing sector are somewhat more ambiguous, because both of the major investment promotion institutions studied (CINDE/PIE and IPC) devote a large share of their resources to general promotion designed to bring new investors into the system (including CINDE's overseas offices, follow-up calls to "hot leads" by IPC staff, advertising, and publications). The costs associated with these activities are included in the information category, which inflates the allocation to this group of activities. Nonetheless, the data suggest that organizations with a foreign investor clientele should emphasize government facilitation, including customs assistance as well as government approvals (such as that needed for free zone firms), and private contacts to a greater degree than do the institutions studied, while downplaying support services later in the investment cycle.

Two important overall conclusions are suggested by the comparison of resource allocations and firm rankings:

-- Firms place a higher value than expected on services provided early in the investment process, including information and assistance in making private contacts.

-- Services that can be provided on a comparatively extensive and standardized basis (information and, to a lesser extent, private contacts and government facilitation) appear to be valued at least as highly as services requiring more intensive and personalized assistance (investment/export support and technical assistance).

It is noteworthy that the institution with the best match between clientele service demand and budget allocation is CENPRO, which provides a relatively standardized package of information, contacts, and government facilitation to its clients. CENPRO, a public sector organization, received the highest ranking among all of the ASIs studied, but its high score may be heavily influenced by its role in doling out Costa Rica's generous export incentives and approving firms for free zone investment.

Table D-15 examines the match between service needs and service provision in another way. This table presents the six services most highly valued by assisted firms in three critical groups: foreign manufacturing firms, local manufacturing firms,

Table D-15. Services Top Ranked for Impact and Role of A.I.D.-Supported Institutions in Providing Them

	Percent of Firms Stating They Received the Service and It Had an Impact	Percent of Firms Receiving the Service That Received It from an AID-Supported Institution
Investment Promotion		
Client: Foreign Manufacturing Firms		
Legal Assistance	59	0
Customs Assistance	54	4
Assistance with Government Approvals	52	17
Site Visit Support	50	59
Printed Information on the Country	45	60
Question-and-Answer	45	40
Export Promotion		
Client: Local Manufacturing Firms		
Buyer Contacts	78	29
Information on Foreign Markets	67	17
Technical Assistance for Production	56	0
Accounting	50	0
Credit	50	0
Training	50	33
Client: Local Agricultural Firms		
Information on Foreign Markets	73	36
Buyer contacts	73	48
Technical Assistance for Production	71	75
Question-and-Answer	53	94
Printed Information on the Sector	50	72
Trade Shows	50	65

Note: Shown are the six services in each category receiving the highest impact rating. This rating is expressed as the percentage of all firms surveyed that stated that the service either had an impact on their export operation or was critical to their operation.

Source: survey data

and local agricultural firms.[10] The table shows the percentage of the firms in each group that viewed the service as having an impact and the percentage in each group that received the service from an ASI. This table suggests several areas where a shift in resources might improve services to firms. For example, local agricultural firms rate technical assistance and information on foreign markets about equally, but ASIs provided market information to only half as many of their clients as received technical assistance.

The unit cost analysis suggests that there is a resource-intensive way and a resource-saving way to provide many of the services studied. Resource-saving approaches to providing information, for example, involve compiling readily-available information and making it available to firms in published form or on request. Resource-intensive methods for providing information involve firm-specific market research or feasibility studies. The intensive and targeted services make a better show for the donor agency, because the institution can point to specific firms that have received intensive assistance, but the overall impact is not demonstrably greater than a less-expensive strategy and may well be lower.

The survey does not provide detailed information on the specific nature of the services provided in each category, however. This issue deserves further analysis and donor attention, focusing on the services identified as important by the survey.

Anecdotal evidence collected during the survey suggests that the resource-saving methods may be at least as good as the resource-intensive methods, for several reasons. First, they enable the organization to provide a valuable service to a larger number of firms for the same expenditure. Second, the standardized services can be provided more easily at high quality levels. Several instances were encountered where the recipients of intensive technical assistance or market research discounted the quality of the work done on their behalf, whereas several respondents waxed enthusiastic on the value of the standardized information they received. One free zone investor in the Dominican Republic, for example, produced a well-thumbed copy of the American Chamber's guide to investors, calling it his bible and stating that he never made a move without consulting it. The survey team, initially skeptical regarding the value of such standardized assistance as manuals and directories, was forced to alter its view in the face of repeated support for such assistance.

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[10] As there were only 13 foreign agricultural firms in the sample, this group was excluded.

Overall, services early in the investment decision process-information and contact making-appear to merit a greater share of resources compared to services that provide more intensive assistance to firms further along in the process, such as technical assistance and investment/export support services. This finding contradicts the conventional wisdom that support institutions should provide intensive assistance to a few firms with an emphasis on follow-through in order to generate (and show) results, rather than providing information and general promotional activities to a wider audience. The study supports a contrary view: activities that increase the number of firms entering the investment or export process, such as information, contact-making, and general promotion, will in fact increase the number of firms that ultimately invest or export, even if intensive, firm-specific services are not provided. The implications of this model for A.I.D. assistance to export and investment promotion are the subject of Annex G.

APPENDIX

Statistical Tables

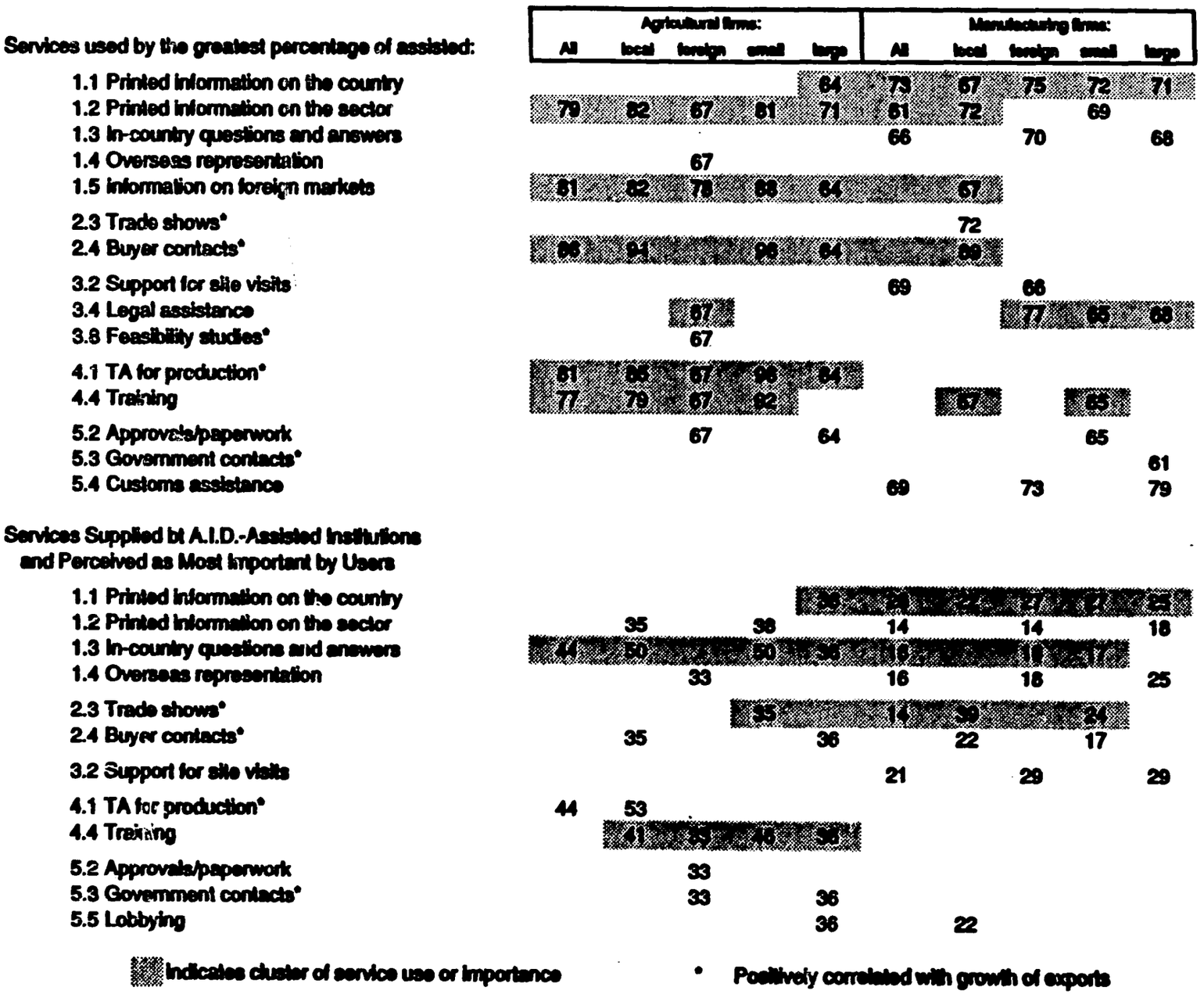
Table D-16. Summary of Survey Results: Use of Services

	Percent Receiving the Service				Percent Receiving from ASIs				Average Importance Score				Average Importance from ASIs			
	—Agriculture—		—Manufacturing—		—Agriculture—		—Manufacturing—		—Agriculture—		—Manufacturing—		—Agriculture—		—Manufacturing—	
1 Information	Assist'd	Unasst	Assist'd	Unasst	Assist'd	Unasst	Assist'd	Unasst	Assist'd	Unasst	Assist'd	Unasst	Assist'd	Unasst	Assist'd	Unasst
1.1 Printed information on the country	58.1	30.8	72.6	55.9	46.5		45.2		1.5	0.9	2.0	1.6	0.3		0.3	
1.2 " " specific to the sector/industry	79.1	76.9	61.3	44.1	44.2		25.8		2.0	2.2	1.6	1.2	0.3		0.1	
1.3 In-country G&A	62.8	46.2	66.1	47.1	54.1		29.0		1.7	1.2	1.8	1.0	0.4		0.2	
1.4 Overseas representation	37.2	30.8	41.9	26.5	20.9		38.8		1.1	1.2	1.1	0.9	0.2		0.2	
1.5 Market information (foreign markets)	81.4	76.9	30.6	35.3	27.9				2.5	2.1	1.0	1.1	0.2			
1.6 Other										0.5		0.1				
2 Private contact-making																
2.1 Directories/referrals	48.8		43.5	35.3	29.9				1.3	0.2	1.1	0.8				
2.2 Deal-making (joint ventures)		30.8							0.8	0.9	0.3					
2.3 Trade shows	58.1	38.5	35.5	35.3	37.2		19.4		1.8	0.9	0.9	1.0	0.3		0.1	
2.4 Buyer contacts	69.8	69.2	46.8	47.1	41.9		21.0		2.1	1.8	1.5	1.6	0.3		0.1	
2.5 Other									0.1	0.2						
3 Investment/export support																
3.1 Firm specific research/visit rea.	48.8		22.6		18.6				1.5	0.5	0.8	0.4				
3.2 Support for site visits			48.4	23.5			38.8		0.4		1.4	0.5			0.2	
3.3 Expatriate facilitation			32.3						0.1	0.2	0.9	0.1				
3.4 Legal assistance	39.5	53.8	69.1	64.7					1.9	1.7	2.1	1.9				
3.5 Accounting assistance	44.2	46.2	54.8	41.2					1.3	1.3	1.6	1.1				
3.6 Credit assistance	44.2	61.5	29.0	47.1					1.5	2.1	1.0	1.5				
3.7 Recruitment		30.8	48.4	23.5						0.8	1.4	0.4				
3.8 Feasibility studies (incl. FTZ)	39.5	38.5	35.5						1.2	1.5	1.0	0.4				
3.9 Other											0.9					
4 Technical assistance																
4.1 Production/processing	81.4	61.5	45.2	41.2	51.2				2.4	1.9	1.6	1.1	0.4			
4.2 Marketing	44.2	38.5	14.5		30.2				1.3	1.2	0.4	0.1	0.2			
4.3 Management			19.4						0.3		0.6					
4.4 Training	79.1	69.2	56.5	44.1	48.8	30.8			2.3	1.7	1.7	1.1	0.4			
4.5 Other											0.1					
5 Government facilitation																
5.1 One-stop shop	27.9	30.8	14.5		18.6				1.3	1.1	0.6	0.6				
5.2 Approvals/paperwork/incentives	44.2	53.8	58.1	67.6	23.3			26.5	1.2	1.2	1.7	1.9	0.2			0.2
5.3 Government contacts	27.9		54.8	23.5	20.9		14.5		0.7	0.5	1.4	0.7	0.2			
5.4 Customs assistance	41.9	53.8	69.4	76.4					1.1	1.5	2.1	2.1				
5.5 Lobbying/policy reform	44.2	46.2	30.6	35.3	32.6				1.1	1.0	0.8	0.9	0.3			
5.6 Post-investment trouble-shooting			30.6						0.4	0.2	0.8	0.2				
5.7 Other									0.2	0.2						
Average number of services received	12.0	10.8	11.4	9.8	5.9	2.1	3.0	1.1								

Note: Levels of utilization and perceived importance are indicated only for those services with utilization significant at the 95 percent level. The 25 percent highest scores are shaded.

Source: Study Survey

Table D-17. Service Use and Importance by Size and Ownership



Source: Study survey

Table D-18. Comparative Performance by Category of Firm

		N	Total labor force (employees)			Export Sales ($'000)			Export Growth Rate		Labor Growth Rate	
			Now	3 yr. ago	In 3 yr.	Now	3 yr. ago	In 3 yr.	Past 3 years %	Next 3 years %	Past 3 years %	Next 3 years %
All assisted firms	agric.	43	193	118	281	1020	470	2222	29.5	29.6	17.8	13.4
	manuf.	62	294	136	465	2325	364	4069	85.6	20.5	29.4	16.5
Assisted agriculture	local	34	172	111	246	761	436	1555	20.4	26.9	15.7	12.6
	foreign/JV	9	268	143	412	1999	600	4744	49.4	33.4	23.4	15.4
Assisted manufacturing	local	18	362	211	482	1755	619	2783	41.5	16.6	19.8	10.0
	foreign/JV	44	268	105	457	2558	260	4596	114.4	21.6	36.3	19.9
Assisted agricultural	small	26	96	67	135	219	109	634	26.2	42.4	13.9	11.2
	large	14	323	205	455	2726	1242	5649	30.0	27.5	16.2	12.2
Assisted manufacturing	small	29	178	91	316	425	151	1096	41.1	37.2	24.8	21.2
	large	28	413	174	603	4708	649	7876	93.6	18.7	33.4	13.4

Source: Study Survey

Table D-19. Measures of Institutional Performance

Organization	% of Increase in 1986-89 Exports Attributable to Institution's Programs	Exports per Program Dollar ($)	Cost per job ($)	Average Score by: Agricultural Assisted Firms (out of 4)	Average Score by: Manufacturing Assisted Firms (out of 4)	Average Points Awarded by Assisted Firms: Agricultural (out of 100)	Average Points Awarded by Assisted Firms: Manufacturing (out of 100)
Investment Promotion							
CINDE/PIE	8	9.1	1035		2.68		21
IPC	40	5.9	1316		2.05		13
Export Promotion							
CAAP	-	-	-	2.91		14	
CENPRO	-	-	-	3.00	2.09	6	1
PROEXAG	17	1.5	4307	2.24		9	
GEXPRONT	-	-	-	2.18	2.25	15	23
JACC	-	-	-	2.60		16	

Source: Study Survey and individual ASI financial statements.

Table D-20. Service Use and Correlation with Export Performance (t values)

	AGRICULTURAL						MANUFACTURING					
	Assisted			Unassisted			Assisted			Unassisted		
	Utiln.	Exprts.	Emplmt.	Utiln.	Exprts.	Emplmt.	Utiln.	Exprts.	Emplmt.	Utiln.	Exprts.	Emplmt.
1 Information												
1.1 Printed information on the country	X	2.13	2.84	X	2.46	2.06	X	[illegible]	4.51	X		2.44
1.2 " " specific to the sector/industry	X	[illegible]	1.87	X	[illegible]		X		3.37	X		
1.3 In-country Q&A	X			X		1.80	X	3.59	4.15	X	1.58	4.80
1.4 Overseas representation	X			X			X	2.75	3.46	X	3.37	2.26
1.5 Market information (foreign markets)	X	[illegible]	1.77	X	[illegible]		X		2.44	X		
1.6 Other												
2 Private contact-making												
2.1 Directories/referrals	X	1.82	1.86				X	2.98	5.11	X	1.84	1.82
2.2 Deal-making (joint ventures)		3.20 *	4.44 *	X		2.68						
2.3 Trade shows	X			X	1.79		X			X		
2.4 Buyer contacts	X	[illegible]		X			X		2.64	X		
2.5 Other												
3 Investment/export support												
3.1 Firm specific research/visit res.	X	1.89					X	2.82				
3.2 Support for site visits		3.11 *	2.86 *				X	3.47	3.24	X	2.62	3.41
3.3 Expatriate facilitation							X	3.24	3.85			
3.4 Legal assistance	X	1.98	2.89	X			X	[illegible]	[illegible]	X	2.91	2.41
3.5 Accounting assistance	X	1.85	2.71	X		1.82	X	2.91	4.89	X	1.79	3.09
3.6 Credit assistance	X		2.15	X	[illegible]		X			X	2.48	
3.7 Recruitment		3.77 *	2.05 *	X		2.52	X	3.17	3.78	X		3.95
3.8 Feasibility studies (incl. FTZ)	X	2.98	1.95	X			X	2.22	2.85			
3.9 Other												
4 Technical assistance												
4.1 Production/processing	X	[illegible]	[illegible]	X			X		2.99	X		
4.2 Marketing	X		2.39	X		6.17	X					
4.3 Management							X		3.21			
4.4 Training	X	[illegible]		X			X	2.98	4.77	X		3.88
4.5 Other												
5 Government facilitation												
5.1 One-stop shop	X		1.99	X			X				2.15	
5.2 Approvals/paperwork/incentives	X	2.42	3.71	X			X	2.84	3.81	X	2.66	
5.3 Government contacts	X	3.19	4.25			3.18 *	X	3.15	4.41	X		
5.4 Customs assistance	X	2.00	2.83	X		1.88	X	[illegible]	[illegible]	X	[illegible]	
5.5 Lobbying/policy reform	X	2.98	2.83	X		1.88	X		2.62	X		
5.6 Post-investment trouble-shooting			2.85 *				X	4.41	5.18			
5.7 Other												

Note: Services indicated by their respective "t" statistics or by "X" are those with coefficients significant at the 95 percent confidence level for (1) utilization by firms interviewed, (2) correlation with export volume increase, or (3) correlation with employment increase. An * indicates services significantly correlated with export volume or employment but not significantly utilized at the 95 percent level. Shaded areas indicate services perceived as important by users, regardless of actual correlations.

Source: Study survey and team analysis.

Table D-21. Summary of Survey Data on Service Use by Assisted Agricultural Firms

Services 1.1–2.5

	SERVICE:	N	1.1	1.2	1.3	1.4	1.5	1.6	2.1	2.2	2.3	2.4	2.5
	Number of Services Received from All Sources												
ASSISTED	NUMBER	48	25	34	27	18	25	4	21	6	25	37	1
AGRICULTURAL	AVERAGE/FIRM		0.52	0.70	0.56	0.37	0.51	0.08	0.44	0.14	0.52	0.56	0.02
FIRMS	%OFALLSERVICES		4.9	6.6	5.3	3.1	6.8	0.8	4.1	1.2	4.9	7.2	0.2
	Number of Services Received from AID-Supported Institutions												
	NUMBER		20	18	25	9	12	4	9	1	16	16	
	AVERAGE/FIRM		0.47	0.44	0.56	0.21	0.28	0.08	0.21	0.02	0.37	0.42	
	%OFALLSERV		7.9	7.5	9.9	3.6	4.8	1.6	3.6	0.4	6.3	7.1	
	AID AS % TOTAL		80.0	55.9	92.6	50.0	54.5	100.0	42.9	16.7	64.0	40.0	
	Number of Important Services Received												
	NUMBER		17	22	31	12	34	2	10	7	21	29	1
	AVERAGE/FIRM		0.40	0.51	0.40	0.28	0.78	0.05	0.30	0.16	0.49	0.67	0.02
	%OFALLSERV		4.2	5.4	5.2	3.0	7.7	0.5	3.2	1.7	5.2	7.2	0.2
	Number of Important Services Received from AID-Supported Institutions												
	NUMBER		13	14	19	9	10	2	6	1	13	14	
	AVERAGE/FIRM		0.30	0.33	0.44	0.21	0.23	0.05	0.14	0.02	0.30	0.33	
	%OFALLSERV		6.7	7.2	9.7	4.6	5.1	1.0	3.1	0.5	6.7	7.2	
	AID AS % TOTAL		76.5	63.6	59.5	75.0	29.4	100.0	40.2	14.3	61.9	48.3	

Services 3.1–3.9

	SERVICE:	3.1	3.2	3.3	3.4	3.5	3.6	3.7	3.8	3.9
	Number of Services Received from All Sources									
ASSISTED	NUMBER	21	6	1	17	18	18	3	17	1
AGRICULTURAL	AVERAGE/FIRM	0.44	0.14	0.02	0.40	0.42	0.44	0.07	0.40	0.02
FIRMS	%OFALLSERVICES	4.1	1.2	0.2	3.3	3.5	3.7	0.6	3.3	0.2
	Number of Services Received from AID-Supported Institutions									
	NUMBER	7	1					1	2	1
	AVERAGE/FIRM	0.16	0.02					0.02	0.05	0.02
	%OFALLSERV	2.8	0.4					0.4	0.8	0.4
	AID AS % TOTAL	33.3	16.7					33.3	11.8	100.0
	Number of Important Services Received									
	NUMBER	17	6	1	9	16	16	1	10	
	AVERAGE/FIRM	0.40	0.14	0.02	0.21	0.37	0.42	0.02	0.30	
	%OFALLSERV	4.2	1.5	0.2	2.2	4.0	4.5	0.2	3.2	
	Number of Important Services Received from AID-Supported Institutions									
	NUMBER	6	1					1	2	
	AVERAGE/FIRM	0.14	0.02					0.02	0.05	
	%OFALLSERV	3.1	0.5					0.5	1.0	
	AID AS % TOTAL	35.3	16.7					100.0	18.4	

Services 4.1–5.7 and total

	SERVICE:	4.1	4.2	4.3	4.4	4.5	5.1	5.2	5.3	5.4	5.5	5.6	5.7	total
	Number of Services Received from All Sources													
ASSISTED	NUMBER	28	18	5	28	1	12	18	12	18	18	6	1	544
AGRICULTURAL	AVERAGE/FIRM	0.54	0.44	0.12	0.77	0.02	0.28	0.44	0.28	0.42	0.44	0.14	0.02	11.35
FIRMS	%OFALLSERVICES	6.0	3.7	1.0	6.4	0.2	2.3	3.7	2.3	3.5	3.7	1.2	0.2	100.0
	Number of Services Received from AID-Supported Institutions													total
	NUMBER	22	18	3	20	1	7	10	9	1	14	6	1	252
	AVERAGE/FIRM	0.51	0.30	0.07	0.40	0.02	0.16	0.23	0.21	0.02	0.30	0.12	0.02	5.86
	%OFALLSERV	8.7	5.2	1.2	8.3	0.4	2.8	4.0	3.6	0.4	5.6	2.8	0.4	100.0
	AID AS % TOTAL	62.9	69.4	60.0	62.5	100.0	58.3	55.6	75.0	5.6	70.7	83.3	100.0	46.3
	Number of Important Services Received													
	NUMBER	30	15	4	29		16	14	9	10	10	5	2	404
	AVERAGE/FIRM	0.70	0.35	0.09	0.69		0.37	0.33	0.21	0.30	0.30	0.12	0.05	9.40
	%OFALLSERV	7.4	3.7	1.0	6.4		4.0	3.5	2.2	3.2	3.2	1.2	0.5	100.0
	Number of Important Services Received from AID-Supported Institutions													
	NUMBER	19	10	2	17		4	8	7		11	6	1	195
	AVERAGE/FIRM	0.44	0.23	0.05	0.40		0.09	0.19	0.16		0.26	0.12	0.02	4.53
	%OFALLSERV	9.7	5.1	1.0	8.7		2.1	4.1	3.6		5.6	3.1	0.5	100.0
	AID AS % TOTAL	63.3	66.7	50.0	58.6		25.0	57.1	77.8		84.6	100.0	50.0	48.3

Source: Study Survey

Table D-22. Summary of Survey Data on Service Use by Assisted Manufacturing Firms

		SERVICE:	1.1	1.2	1.3	1.4	1.5	1.6	2.1	2.2	2.3	2.4	2.5	3.1	3.2	3.3	3.4	3.5	3.6	3.7	3.8	3.9	4.1	4.2	4.3	4.4	4.5	5.1	5.2	5.3	5.4	5.5	5.6	5.7	total
		N	Number of Services Received from All Sources																																
ASSISTED MANUFACTURING (LOCAL FIRMS)	NUMBER	10	12	10	10	9	10		8	9	13	16		6	1	1	0	0	0	3	3		11	3	3	10	1	4	9	6	11	10		210
	AVERAGE/FIRM		0.57	0.70	0.59	0.44	0.57		0.44	0.17	0.76	0.89		0.33	0.06	0.06	0.00	0.00	0.00	0.17	0.44		0.61	0.17	0.17	0.57	0.06	0.22	0.50	0.33	0.61	0.56		11.67
	%OF ALL SERVICES		5.7	6.2	4.8	3.8	5.7		3.8	1.4	6.2	7.6		2.4	0.5	0.5	4.8	4.8	4.8	1.4	2.8		5.2	1.4	1.4	5.7	0.5	1.9	4.3	2.9	5.2	4.8		100.0
			Number of Services Received from AID-Supported Institutions																																total
	NUMBER		0	0	0	0	2		1	2	0	0		1	1								1		4	1	1	2	3		0		62
	AVERAGE/FIRM		0.00	0.00	0.00	0.17	0.11		0.06	0.11	0.00	0.00		0.06	0.06								0.06		0.22	0.06	0.06	0.11	0.17		0.00		3.44
	%OF ALL SERV		10.0	0.7	0.7	4.5	3.2		1.6	3.2	14.5	0.7		1.6	1.6								1.6		6.5	1.6	1.6	3.2	4.8		0.0		100.0
	AID AS % TOTAL		00.7	40.0	00.0	07.5	10.7		10.5	00.7	00.2	07.5		00.0	100.0								00.0		00.0	100.0	00.0	00.2	00.0		00.0		20.5
			Number of Important Services Received																																
	NUMBER		0	0	0	0	10	1	0	0	0	14	2	4		2	0	0	0	2	0		10	0	0	0		4	0	1	0	7		100
	AVERAGE/FIRM		0.00	0.00	0.00	0.00	0.07	0.00	0.17	0.17	0.44	0.70	0.11	0.22		0.11	0.00	0.00	0.00	0.11	0.00		0.00	0.17	0.17	0.00		0.22	0.00	0.06	0.00	0.44		0.00
	%OF ALL SERV		0.0	0.1	0.0	0.0	7.5	0.0	1.0	1.0	0.0	0.0	1.0	2.5		1.0	0.0	0.7	0.7	1.0	0.0		0.0	1.0	1.0	0.7		2.5	0.0	0.0	0.0	4.4		100.0
			Number of Important Services Received from AID-Supported Institutions																																
	NUMBER		4	0	0	0	0			2	7	4											1		0			1	2	1		4		30
	AVERAGE/FIRM		0.22	0.17	0.17	0.11	0.11			0.11	0.00	0.22											0.06		0.17			0.06	0.11	0.06		0.22		2.17
	%OF ALL SERV		10.0	7.7	7.7	5.1	5.1			5.1	17.0	10.0											2.0		7.7			2.0	5.1	2.0		10.0		100.0
	AID AS % TOTAL		00.7	00.0	00.0	00.0	10.7			00.7	07.5	20.0											00.0		00.0			25.0	25.0	100.0		07.1		24.5
		N	Number of Services Received from All Sources																																
ASSISTED MANUFACTURING (FOREIGN)	NUMBER	40	20	25	21	10	7		10	3	9	10		9	20	10	24	25	0	27	14		17	6	0	20		5	27	23	22	0	10		400
	AVERAGE/FIRM		0.70	0.67	0.70	0.40	0.10		0.40	0.07	0.30	0.30		0.30	0.00	0.40	0.77	0.07	0.00	0.01	0.02		0.00	0.14	0.10	0.02		0.11	0.01	0.04	0.70	0.00	0.00		11.22
	%OF ALL SERVICES		0.0	0.0	0.2	2.0	1.4		2.0	0.0	1.0	2.0		1.0	0.0	2.0	0.0	0.0	1.0	5.4	2.0		0.4	1.2	1.0	4.0		1.0	5.4	0.0	0.4	1.0	2.0		100.0
			Number of Services Received from AID-Supported Institutions																																total
	NUMBER		20	10	11	10	2		0		3	7		2	10	2				1	1		1		1	1		3	0	0	1	1	0		105
	AVERAGE/FIRM		0.40	0.20	0.27	0.20	0.00		0.14		0.07	0.10		0.00	0.01	0.00				0.02	0.02		0.02		0.02	0.02		0.07	0.11	0.14	0.02	0.02	0.14		2.04
	%OF ALL SERV		10.0	0.0	0.0	10.0	1.0		4.0		2.4	0.0		1.0	14.4	1.0				0.0	0.0		0.0		0.0	0.0		2.4	4.0	4.0	0.0	0.0	4.0		100.0
	AID AS % TOTAL		00.0	40.0	20.7	00.0	20.0		01.0		00.0	00.0		00.0	02.1	10.0				2.7	7.1		0.0		10.0	4.0		00.0	10.0	21.4	2.1	11.1	21.0		20.1
			Number of Important Services Received																																
	NUMBER		20	10	20	10	0		11	2	0	0		0	22	11	20	14	0	10	0		10	2	7	17		2	20	10	20	0	10		240
	AVERAGE/FIRM		0.40	0.20	0.40	0.20	0.11		0.22	0.04	0.11	0.20		0.14	0.20	0.22	0.20	0.22	0.10	0.01	0.10		0.20	0.07	0.10	0.20		0.07	0.22	0.01	0.20	0.14	0.20		7.20
	%OF ALL SERV		0.0	4.7	0.0	2.0	1.0		0.2	0.0	1.0	2.0		1.0	0.0	0.2	7.0	4.1	2.4	0.0	2.4		4.7	0.0	2.1	0.0		0.0	0.0	0.0	7.0	1.0	2.0		100.0
			Number of Important Services Received from AID-Supported Institutions																																
	NUMBER		10	0	0	0	1		4		2	4			10	1							1		1			1	4	4	1	1	2		70
	AVERAGE/FIRM		0.27	0.14	0.10	0.10	0.02		0.00		0.05	0.00			0.20	0.02							0.02		0.02			0.02	0.00	0.00	0.02	0.02	0.05		1.00
	%OF ALL SERV		10.0	0.1	10.0	10.0	1.4		5.4		2.7	5.4			17.0	1.4							1.4		1.4			1.4	5.4	5.4	1.4	1.4	2.7		100.0
	AID AS % TOTAL		00.0	07.5	40.0	00.0	20.0		00.4		40.0	44.4			00.1	0.1							0.0		14.0			20.0	17.4	22.2	0.0	10.7	20.0		21.0

Source: Study Survey

Table D-23. Summary of Survey Data on Service Use for Chile: Assisted Agricultural Firms

SERVICE:	1.1	1.2	1.3	1.4	1.5	1.6	2.1	2.2	2.3	2.4	2.5	3.1	3.2	3.3	3.4	3.5	3.6	3.7	3.8	3.9	4.1	4.2	4.3	4.4	4.5	5.1	5.2	5.3	5.4	5.5	5.6	5.7	total
ASSISTED AGRICULTURAL FIRMS																																	
N	Number of Services Received from All Sources																																
NUMBER	3	2	3		3	3	2		3	3		1					2		1	3		1								1			28
AVERAGE/FIRM		0.67	1.00		1.00	1.00	0.67		1.00	1.00		0.33					0.67		0.33	1.00		0.33								0.33			9.33
%OFALLSERVICES		0.07	0.11		0.11	0.11	0.07		0.11	0.11		0.04					0.07		0.04	0.11		0.04								0.04			100.00
	Number of Services Received from Promotion Institutions																																total
NUMBER		2	3		3	3	2		3	3		1					2			1		1								1			25
AVERAGE/FIRM		0.67	1.00		1.00	1.00	0.67		1.00	1.00		0.33					0.67			0.33		0.33								0.33			8.33
%OF ALL SERV		0.08	0.12		0.12	0.12	0.08		0.12	0.12		0.04					0.08			0.04		0.04								0.04			100.00
% TOTAL		100	100		100	100	100		100	100		100					100			33.3		100								100			89.29
	Number of Important Services Received																																
NUMBER		2	1		3	3	1		1	1		1							1	1													16
AVERAGE/FIRM		0.67	0.33		1.00	1.00	0.33		0.33	0.33		0.33							0.33	0.33													5.33
%OFALLSERV		0.1	0.1		0.2	0.2	0.1		0.1	0.1		0.1							0.1	0.1													1
	Number of Important Services Received from Promotion Institutions																																
NUMBER		2	1		3	3	1		1	1		1								1													14
AVERAGE/FIRM		0.67	0.33		1.00	1.00	0.33		0.33	0.33		0.33								0.33													4.67
%OFALLSERV		0.14	0.07		0.21	0.21	0.07		0.07	0.07		0.07								0.07													100
% TOTAL		100	100		100	100	100		100	100		100								100													93.3

Table D-24. Summary of Survey Data on Service Use for Chile: Assisted Manufacturing Firms

SERVICE:	1.1	1.2	1.3	1.4	1.5	1.6	2.1	2.2	2.3	2.4	2.5	3.1	3.2	3.3	3.4	3.5	3.6	3.7	3.8	3.9	4.1	4.2	4.3	4.4	4.5	5.1	5.2	5.3	5.4	5.5	5.6	5.7	total
ASSISTED MANUFACTURING (LOCAL FIRMS)																																	
N	Number of Services Received from All Sources																																
NUMBER	2	1	1		2			2	2										1		1			1				1		1		13
AVERAGE/FIRM		0.50	0.50		1.00			1.00	1.00										0.50		0.50			0.50				0.50		0.50		6.5
%OFALLSERVICES		7.7	7.7		15.4			15.4	15.4										7.7		7.7			7.7				7.7		7.7		100
	Number of Services Received from Promotion Institutions																															total
NUMBER			1						1	2																						4
AVERAGE/FIRM			0.50						0.50	1.00																						2
%OFALLSERV			25.0						25.0	50.0																						100
% TOTAL			100						50	100																						0.5
	Number of Important Services Received																																
NUMBER		1			2			2	1										1		1			1				1		1		11
AVERAGE/FIRM		0.50			1.00			1.00	0.50										0.50		0.50			0.50				0.50		0.50		5.5
%OFALLSERV		0.1			0.2			0.2	0.1										0.1		0.1			0.1				0.1		0.1		1
	Number of Important Services Received from Promotion Institutions																																
NUMBER									1	1																						2
AVERAGE/FIRM									0.50	0.50																						1
%OFALLSERV									0.5	0.5																						1
% TOTAL									0.5	1																						10.10

Note: Because the Chilean samples are very small, formal significance tests are not useful; 100 percent use is defined as "significant" use.

ANNEX E

SUSTAINABILITY OF PROMOTIONAL SERVICES AND INSTITUTIONS

1. INTRODUCTION

1.1 Overview of Central Issues for Investment and Export Promotion

The assumption that the promotional programs established will survive withdrawal of A.I.D. funding underlies the Agency's willingness to finance these programs initially. The realism of this assumption is increasingly an issue in program design, not only in the trade and investment promotion area but throughout the assistance portfolio.

The insights into sustainability offered by the ASIs studied in this report therefore shed light on design issues that must be addressed not only in trade and investment promotion but in any program that seeks to mobilize private entities for a new purpose or create such entities from scratch.

This discussion focuses in particular on membership organizations and other private entities. Concern over sustainability has encouraged the shift to private service delivery mechanisms, represented by six of the seven ASIs studied in this report. This shift derives in part from the belief that such programs are more sustainable than comparable government programs, given the ability of private institutions to generate revenues from private sources and their freedom from the budgetary and procedural constraints that bind public sector institutions and in acquiring technical resources, particularly skilled personnel. These constraints have not only hampered government agency performance during project implementation, but have often led to a sharp decline in the level of services once outside funding ceases.

It is therefore particularly important to examine the potential for sustainability offered by private entities and to consider how sustainability is affected by institutional structure.

The central issue in this regard is simply stated:

-- Are these programs sustainable, with or without continued A.I.D. support?

It is important to note that this discussion relies to a large but unavoidable degree on the team's professional judgment,

rather than on hard evidence regarding sustainability over time. None of the promotional institutions studied in depth has been withdrawn from A.I.D. funding. All of the programs examined, except those in Chile, are still receiving large infusions of A.I.D. funding. The experience of CEDOPEX in the Dominican Republic, a public sector agency that has virtually terminated the promotional programs funded by A.I.D. in the early 1980s, suggests that donors are right fully concerned.

1.2 Key Questions Raised by the Issues

This section addresses three basic questions within this overall issue:

1. Are these services currently sustainable?

2. Can they be made sustainable and, if so, how?

3. What are the implications if they are not sustainable?

The following discussion focuses on the first two questions, discussion of the implications is covered in Annex G.

1.3 Study Approach to Resolving These Questions

This section begins with a brief discussion of sustainability, a concept that appears often in any discussion of donor-funded programs in developing countries but rarely receives detailed examination. The section then analyzes the sustainability of the programs supported, with an emphasis on their financial sustainability. Examined are the institutions' sources of funding, including current user charges, and the implications of alternative approaches to meeting the cost of promotional programs for the health and longevity of the institutions.

The survey of assisted and unassisted firms included questions on whether the institutions had paid and would be willing to pay for the services received. These questions proved to be less useful than anticipated. Responses about payments actually made identified the source of the service (private firms charge fees) and the policy of the ASIs (JACC charges for some services, CAAP does not). Responses about willingness to pay were judged to be not useful, for three reasons: (1) the answers related to the specific service as received by the firm and varied more widely than anticipated; (2) firm answers appeared to reflect the source of the service; that is, firms were unwilling to pay for services they expected the government to provide; and

(3) firms found this question difficult to answer without more information on exactly what services would be provided and how high the charges would be. For these reasons and because of time limitations on the interview process, firms were not asked to estimate how much they would pay for a specific service.

2. ASSESSING SUSTAINABILITY: WHAT IS THE STANDARD?

In nearly all of the cases examined, A.I.D. has not so much supported an ongoing export or investment promotion program as created such a program. In some cases, such as Guatemala's GEXPRONT, the institution itself had been in existence for some time before it received A.I.D. funding to establish a promotional program. In other cases, A.I.D. support provided vital impetus to establish the institution itself as well as to initiate the promotional program (as was the case for JACC and IPC in the Dominican Republic and CINDE in Costa Rica, for example). It is standard for project designs to emphasize the role of local initiative in establishing the programs that A.I.D. is supporting, but the reality in this case does not correspond to this description: these programs are largely A.I.D. initiatives.

Given that these programs are not established, ongoing activities that have demonstrated their staying power, there are several alternative standards for sustainability, in a roughly ascending scale:

1. The activities promoted by A.I.D.--foreign investment and export expansion by local companies--will continue to expand after A.I.D. funding is withdrawn, even if the programs supported and the institutions themselves do not survive.

2. The institutions will continue to exist, but the promotional programs will be drastically curtailed.

3. The programs will continue only if concessional funding is found to replace A.I.D. funds, and programs may be reduced in scope or level.

4. The programs will continue at a level comparable with the current level independently of outside support, including additional A.I.D. funding.

An assessment whether sustainability has been achieved depends critically on which of these standards is used. The analysis that follows generally focuses on the fourth and highest

level of sustainability, because concern over program continuity lies at the heart of A.I.D. discussions regarding sustainability. It should be emphasized, however, that program continuity is not necessarily the most appropriate standard by which A.I.D. support should be judged, given that the aim of such support is to promote exports, investment, and jobs, not to create institutions.

In none of the cases examined does continued expansion of exports and investment appear to depend to any significant degree on continued A.I.D. funding of promotional programs. As discussed in Annex F, the institutions examined have accounted for a relatively small share of the export growth achieved (between 4 and 31 percent, depending on the country and institution). In other words, 70 to 95 percent of the export growth took place independently of assistance from the institutions studied. The institutions may well have facilitated and accelerated the growth of exports and foreign investment and arguably have significantly contributed to getting the process going and bringing it the point of being self-sustaining, but even their strongest supporters would not claim that export growth and foreign investment would stop without continued support.

Several of the A.I.D. private sector officers contacted, including those in the case study countries and others in the CBI region, argued strongly that the programs have accelerated export growth and helped to establish a self-sustaining export sector. For example, one A.I.D. private enterprise officer in a non-case-study country argued that A.I.D. support had been instrumental in reaching saturation for foreign investment, thereby building a constituency for exports and foreign investment sufficient to maintain pressure on the government to continue the policies that favor future investment. In a real sense, sustainability has been achieved when the export and investment process is self-sustaining, even if the promotional activities funded decline or even disappear when A.I.D. funding is withdrawn.

In other words, promotional programs may be seen as a temporary subsidy to innovative behavior through foreign investment or export by local companies. Once the innovation is firmly established, the subsidy, and therefore the services, need not be continued. Indeed, continuation of the subsidy beyond this point would be inappropriate and potentially counterproductive to maintaining competitiveness and flexibility. Taken to its extreme, this argument suggests that sustainability is not necessary for program success.

2.1 Requirements for Institutional Sustainability

Program sustainability may be defined as "the capacity to continue implementing a program of activities without outside assistance." This capacity in turn consists of several elements:

-- Access to sufficient financial resources,

-- Availability of technically competent personnel,

-- Existence of a functioning management system to carry out the activities and manage the institution itself,

-- Presence of an institutional structure that permits continuation of the organization, and

-- Availability of a technically effective program of activities to achieve the purposes set forth for the institution.

These requirements are closely interrelated. In particular, the quality of the personnel, which is vital to any service-oriented program, depends on the institution's financial capacity to attract and retain high-caliber employees and on the presence of a management structure that permits the personnel to function effectively together with a program that uses and channels their skills for maximum effect.

In part because of the interdependence of these different components, access to financial resources is central to institutional sustainability. Financial resources permit the organization to purchase the human resources necessary to develop and implement managerial, institutional, and programmatic systems, but the presence of funding by no means ensures that the organization will use the funds effectively to put in place the personnel and other systems necessary. In other words, a reasonable degree of financial security is a necessary, but not sufficient, condition to meet the other requirements for sustainability. Chronic funding shortages make it difficult or impossible to meet the other requirements for sustainability. On the other hand, personnel resources, a sound organizational and management structure, and a valid program are necessary to achieving financial security through any means other than reliance on donor generosity.

2.2. Sustainability and Institutional Structure

How the five requirements above are met--and the feasibility of meeting them at all--differs greatly among different types of

institutions. From the standpoint of sustainability, promotional institutions fall into three categories:

1. Government units, which are controlled by the government, are generally subject to civil service regulations, provide services to anyone requesting them, and derive the majority of their nondonor funding from government budget allocations;

2. Membership institutions, which are controlled by their members and depend on their support, orient their programs to the services needed and requested by their members, and derive a substantial share of their funding from the members (both membership dues and fees for service); and

3. Independent private entities, which are self-managed (frequently under the oversight of a public-private board), often are non-profit, provide services to a clientele defined by the institution, and are dependent on a combination of fee income and resources provided by other organizations (donors and the government).

A fourth category could be defined that consists of private, for-profit firms for whom investment and export promotion activities are a secondary line of business, such as accounting and legal services firms. They differ from the other independent institutions in that they are wholly dependent on fee income but generally devote only a small share of their total activities to the investor/exporter clientele. Sustainability is not an issue for these institutions, because their capability and willingness to provide services is limited to their ability to generate the fees necessary to underwrite such services.

The mere presence of a list of members does not make an organization a membership institution: A membership organization is controlled by its members and depends on their support for its credibility and its budget. A private entity such as the IPC can evolve into a membership organization, but the transformation is likely to require a change in the management structure to give members a real say in how the organization is run.

Strictly speaking, the independent private entity category is not limited to indigenous nonmembership organizations such as the Dominican Republic's IPC and Honduras's FIDE, but includes all nonmembership institutions depending predominantly on A.I.D. project funding. It therefore includes project implementation units, of which the primary example in this study is PROEXAG. These quasi-institutions differ from other nonmembership

organizations in several respects,[1] of which the most important for this discussion is that they are not intended to continue after funding stops. For this reason, the following discussion will focus on the independent private entities for which sustainability is presumably desired.

The strategies available for achieving sustainability differ among the three types of institutions, because each type of organization has a different relationship to its clientele:

-- Government entities can survive and even prosper without a clientele, as long as the government's leaders believe that the organization is making a contribution and are willing to continue funding it. The presence of a strong constituency group that values the services of the entity is helpful in ensuring government support, but it is not a requirement.

-- Membership organizations have a built-in clientele that serves as their primary source of funding and other support. For these organizations, the challenge is to develop a membership base sufficiently large to support ongoing activities and to keep the members sufficiently happy with the services they are receiving to ensure that the organization can remain in operation.

-- Private entities face a major problem in achieving sustainability, because they may have neither a natural clientele nor a built-in mechanism for dealing with a clientele once identified. The most natural "clientele" of investment promotion organizations is potential offshore investors, but this group is clearly not a likely source of support. For export promotion organizations, local firms would appear to offer a logical clientele group, but the specific linkages between the organization and this clientele, which itself is diffuse, unorganized, and often politically powerless, are difficult to define. In the absence of a private sector clientele, private entities remain themselves the clients of donor organizations or may be captured by a clique of powerful individuals (private

[1]These differences include: (1) the project entities are managed by a U.S. organization (a private firm in the case of PROEXAG), rather than by a local board; (2) they are not formally established as host country institutions; (3) their relationship with A.I.D. generally is by contract rather than through grants; and (4) they tend to have a larger proportion of expatriates in management and technical positions.

sector, public sector, or both). Neither situation is sustainable for long.

3. CURRENT LEVELS OF SUSTAINABILITY

3.1 Sustainability of A.I.D.-Supported Promotional Institutions

When A.I.D. funds have been the impetus for the creation of the promotional institution, its continuation after funding is withdrawn cannot be assumed. Judged in terms of their capability to fund their current level of operations from non-A.I.D. sources, none of the A.I.D.-supported institutions examined approaches financial sustainability. Table E-1 summarizes the source of 1989 budgetary support for the CBI region private institutions studied.

Table E-1. Sources of 1989 Funding for Private Promotional Organizations (percent)

	A.I.D. Funds	Host Government Funds	Own Resources and Other Funds
CAAP	100	0	0
CINDE/PIE	100	0	0
GEXPRONT	62	0	38
IPC	91	5	4
JACC	73	12	16
PROEXAG	100	0	0

Source: Budgets as reported by the institutions.

This table illustrates two conclusions: (1) all of the promotional institutions are highly dependent on A.I.D. funding and (2) the member organizations have to date been able to generate more resources from non-A.I.D. sources than have the private entities.

This dependency has different implications for each of the three types of institutions studied.

3.1.1 Government Units

The A.I.D.-supported governmental institution studied--CENPRO in Costa Rica--would probably survive the withdrawal of A.I.D. funding, in the sense that an office with personnel would continue to exist. The record of other

government promotional units, such as CEDOPEX in the Dominican Republic and ProChile, is not encouraging, however, regarding the likelihood that CENPRO will receive sufficient funding to remain an effective promotional institution. The moribund state of CEDOPEX in particular presents a stark example of the fate of a government agency created with donor funding when that funding is withdrawn in an environment of budgetary famine.

3.1.2 Membership Institutions

It appears virtually certain that the associations of local exporters--JACC, GEXPRONT, and CAEM--would survive a phaseout of A.I.D. funding. GEXPRONT and CAEM predate A.I.D. assistance for export promotion and have an established clientele and membership base. JACC appears to have progressed in building a genuine constituency among agribusiness firms and entrepreneurs in the Dominican Republic.

3.1.3 Private Entities

The independent private entities are in the most difficult situation. The continued existence of these organizations--IPC, CINDE, CAAP, and PROEXAG--is wholly dependent on outside funding from A.I.D. or another source. If A.I.D. funding were withdrawn from any of these organizations, they would cease to exist.

Of the organizations studied, only the IPC is currently making a major push to explore alternative revenue sources. As further discussed later, this attempt may well prove unsuccessful, despite the effort being made by IPC's management. CINDE and CAAP plan to rely on the endowment fund being created by USAID/Costa Rica with local currency resources and therefore have not explored alternative sources. Continuity has never been an aim for PROEXAG.

3.2 Sustainability of Personnel and Organizational Resources

Despite the availability of funding to underwrite relatively high salaries, many of the organizations studied have experienced great difficulties in retaining staff. Investment and export promotion are not recognized specialties for which a pool of trained personnel exists, nor are the skills required uniquely applicable to the work of the institutions. As a result, the operational personnel of the promotional institutions studied tend to consist almost entirely of young, inexperienced college

graduates. These individuals have much enthusiasm and ambition but lack commitment and solid business knowledge. As a result, they require substantial training in order to perform their functions at an acceptable level. The training provided is generally a mix of short-term courses, study tours, and on-the-job training, which at best provides general familiarity with foreign investment and export markets.

The problem is that operational personnel rarely stay with the organization long enough to move beyond this minimal level. Once they have a solid grounding in export-oriented business, they are in high demand in the private sector and are often bid away. The organization must begin again with a new crop of bright young faces. The expenditures for staff training are therefore a maintenance activity, not an investment in the organization's future. Many of the organizations have thus made little progress toward establishing a strong personnel base below the management level. If funding were reduced, forcing lay-offs or salary cuts, what progress has been made would be lost almost immediately.

Several of the institutions (notably CINDE) have experimented with performance-based salaries to reward staff for successful promotion activities and encourage them to keep in touch with their clientele (bonuses are given for employment growth achieved even several years after the initial investment). Nonetheless, these organizations continue to experience high turnover as staff move to the private, for-profit sector.

Somewhat better progress has been made toward establishing institutional systems for data management, financial management, publications, and so on. Technical assistance has been valuable in establishing these systems, but the organizations do not generally have the institutional resources to modify or redesign these systems if needs change in the future.

3.3 Sustainability of Activities Funded

Without funding, no activities can be sustained. The experience of the institutions studied indicates that A.I.D. has been too ready to assume that fee income can easily be generated once the institutions have developed the ability to offer services and demonstrated their value.

Each of the promotional organizations is only beginning to experiment with charging fees for its services, and none has yet demonstrated that it can recover the full direct cost of these activities, much less that it can generate a sufficient volume of service income and recover sufficient overhead to maintain its

programs at their current level. (Specific estimates of fees necessary to cover costs are presented later in this section.)

Among the CBI region institutions studied, only JACC charges for a substantial portion of its services. The others charge only minimal fees or no fees at all. Several institutions are in the early stages of implementing a fee schedule or are considering such a scheme.

Even JACC is far from full-cost pricing. Its program calls for phasing in charges for its services. In 1990 JACC will, in principle, charge service recipients 80 percent of the cost of providing key services. As currently calculated by JACC, however, this cost includes only the direct cost of providing the service, not the overhead cost associated with keeping the organization in business or the cost of providing services for which no fee can be levied (such as lobbying). Study team calculations indicate that, at current staffing levels and service volume, full coverage of the organization's budget from service fees would require rates more than three times higher than those JACC is using as its base.

IPC is also experimenting with various fund-raising mechanisms. It is intensifying its efforts to attract other donor funding (from the European Community, for example) and is negotiating with free zone management firms to collect brokerage fees when they bring a new tenant to the zone. These efforts are beginning to be successful.

The section on Chilean institutions paints a picture that is generally similar to that of the other institutions studied, with the important exception of Fundación Chile. As discussed later, Fundación Chile charges the firms it establishes for services provided by the parent institution. The Fundación Chile model differs from that of the other institutions studied, and it is not clear whether that approach has relevance to them.

Activities differ in terms of their suitability for charging fees and generating revenue through other means. Figure E-1 summarizes the potential for revenue generation from each of five promotional activities: general promotion of exports by local firms, general promotion of foreign investment, policy lobbying, direct services to local firms, and direct services to foreign investors.

Based on the experience of the institutions studied, only policy lobbying and services to local firms can be judged to have a high potential to generate revenues from nondonor sources. General promotion of investment and direct services to foreign exporters offers potential for generating revenues only if there is a specific local interest group that stands to benefit

Figure E-1. Viable Models for Investment and Export Promotion Institutions

Activity	Potential for: Fee-Based Revenue Collection from Clients	Quota-Based Revenue Collection from Members	Host Government Funding	Other Donor Funding
[illegible] Promotion				
[illegible] (Local Firm Export)	LOW	MODERATE (from local firms only)	MODERATE (funds availability)	LOW (impact hard to show)
[illegible] (Foreign Investment)	MODERATE (e.g., free zone managers)	MODERATE (e.g., free zone managers)	MODERATE (funds availability)	LOW (impact hard to show)
[illegible] (Policy Lobbying)	LOW (diffused benefits)	HIGH	LOW	HIGH
[illegible] to Firms				
[illegible] (Local Companies)	HIGH	MODERATE	LOW (benefits too concentrated)	HIGH
[illegible] (Foreign Investors)	LOW (competition with other sites)	MODERATE (e.g., free zone managers)	MODERATE (funds availability)	HIGH

directly from such activities, such as private free zone managers.

3.4 Lessons on Sustainability from the Chilean Experience

The experience of Chilean export and investment promotion institutions is relevant to the question of the long-term sustainability of service provision by their comparative financial success. Chilean institutions with the most tightly focused range of services and the most direct involvement of the private sector appear to be the most financially viable in the long run.

1. During 1989, Fundación Chile provided 65 percent of its operating costs through operating revenues, that is, direct sale of services, products, and affiliated firms. Sales of services alone covered 56 percent of operating costs. In years during which major sales of affiliates are recorded, the foundation runs a considerable operating surplus (e.g., 298 percent in 1988). Altogether, including the sales of services and products by the affiliates themselves, the foundation covers 75 percent of total consolidated operating costs during normal years. As detailed in Annexes C and D, Fundación Chile is a private foundation providing technical assistance and technology transfer services to exporters both directly and through pilot projects as newly created private firms. Although its fundamental objective is export promotion, the foundation limits its services to technology transfer and technical assistance. It owns an endowment of approximately $50 million, provided originally by International Telephone and Telegraph and the Government of Chile. Its bylaws require that more than one-half its board of directors be appointed by private sector firms; the remaining members are appointed by the Government of Chile and may or may not be from the private sector. Firms receiving its services rate them highly, and that subsidiaries sell well argues for the success of its technology transfer programs. Sustainability does not appear to be a problem.

2. ProChile is the Chilean government agency providing export promotion services most similar to those of the ASIs. It operates on a proportionately smaller budget than do its CBI-region counterparts, with respect to the size of their respective external sectors ($5.2 million during 1989), but does not charge a great deal

for its services.[2] The agency offers a narrower range of services than do most ASIs, concentrating on promotion activities abroad, including trade fairs, direct contacts, and information provision. Sectoral committees--industry-specific groups of private sector representatives--are its major domestic component, providing guidance to ProChile officials concerning the direction and content of the promotion program. Nevertheless, private sector agencies cannot be directly controlled by the private sector influence over ProChile. Recipients of its services rate the agency highly and generally report that they would be willing to pay for certain services, but it seems likely that most of ProChile's operating costs must necessarily be provided by the Government of Chile, as the services have the character of public goods. Because its budget is proportionately smaller, however, and because it could charge for some services, its program might be considered somewhat more sustainable than those of ASIs.

3. Corfo is an older Government of Chile agency charged with many development-related tasks in addition to investment promotion. Consequently its program tends to be broad and vaguely defined, in contrast to the tightly focused programs of Fundación Chile and ProChile. It receives no private sector operational or policy input and even seems to engender significant resentment among private investors because of its role as state holding company and therefore subsidized competitor to private firms. The services it provides (provision of credit, technical assistance, information, etc.) are not highly rated by the recipients, and it seems likely that in no event could cost-recovering fees be charged for these services. Although the agency's costs exceed its revenues (including profits of corporate subsidiaries) by approximately $150 million a year, the financial statements do not show either costs of or revenues from promotional services. It might be concluded, however, that the agency could never be even remotely self-sustaining.

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[2]ProChile charges small fees for information and printing and expects exporters to share the costs of trade fairs and promotional trips, but it does not charge directly for its services, on the Fundación Chile model.

In general, then, the sustainability of Chilean export and investment promotion institutions appears to be directly proportional to the degree of private sector involvement in their operations and the degree of focus of their service programs.

4. SUSTAINABILITY AND THE MARKETPLACE

Each type of organization faces special challenges in moving from dependence on A.I.D. to self-sustaining operation. The nature of these challenges is shaped by the different relationship each type of institution bears to potential funding sources, and by the different types of activities undertaken.

4.1 Membership Organizations

Membership organizations confront a dilemma as they seek to grow toward independence. This dilemma is faced by all of the membership institutions studied but is best illustrated at JACC, which has experienced very rapid growth in its membership base over the past three years.

Like many membership associations, JACC was essentially an "old boys' club" in its early years. It had fewer than 100 members, and benefits were heavily concentrated within this group. Facing pressure from A.I.D. and its own needs to generate more membership revenue, JACC dramatically increased its membership, reaching 448 members by the end of 1989. As a result of this rapid growth, its current technical capability and management systems are no longer adequate to provide the full menu of services to this much expanded membership. The challenge will be to expand technical capability and create new management systems without raising overhead costs above a level acceptable to the members, while beginning to charge members for the full cost of services provided. If members find that services are not available on demand, as they were in the past, they will drift away and membership quota revenues will fall, as will the credibility of the organization. If, however, the cost of providing services rises too quickly, the same negative outcome will result.

This task will be made more difficult by JACC's commitment to "public good" activities, such as lobbying. Public service activities, such as the "agribusiness encounters" arranged to bring together JACC members and prominent figures from business and government, have given JACC a positive image and helped to attract members, but they also generate costs that must eventually be incorporated into membership dues and overhead

charges applied to member service fees. It is too early to judge whether JACC will be able to pull off this difficult balancing act.

JACC may need to scale down some of these activities in the short run, even though they are beneficial to the organization's image and well regarded by the membership, in order to concentrate on its basic service menu and develop the internal management systems that will permit it to serve its greatly expanded membership. Activities that do not generate fees may have to be curtailed in the short run in order to generate the strong fee-earning service base that will enable JACC to undertake these activities with its own funds in the future. If A.I.D. is not content to see public good activities scaled back temporarily or possibly permanently, then the need for a continued source of outside funding to underwrite these activities must be addressed.

4.2 Private Entities

As in the case of membership organizations, A.I.D. has been too hasty in assuming that it could readily convert its programs to a for-fee basis. The private entities face different problems than do the membership organizations, and in many ways their problems are harder to solve.

Among the private entities studied, only the IPC has begun to confront the need to find its own sources of funding; Fundación Chile and CINDE have been spared this indignity by their endowments, and PROEXAG has been assumed to have a limited life span.

IPC's search for fee-based income illustrates the different dilemma facing such organizations, particularly those targeted to offshore investors, when they attempt to increase nondonor income. IPC has three potential client groups: offshore investors, local firms seeking export assembly contracts, and local firms seeking investors (as joint venture partners or as free zone tenants). None of these groups promises to serve as a satisfactory client base capable of generating the revenue needed to sustain investment promotion activities at their current level, as further discussed below.

1. Offshore investors are unlikely candidates for fee-based services. A decade of government and donor support for investment promotion has firmly established the principle that offshore firms are not charged for the assistance received before their decision to invest. To attempt to charge substantial fees for site

visit support or other services would not be consistent with the desire to promote the Dominican Republic as a friendly investment platform. When fees for service are accepted (legal assistance, for example), IPC would have difficulty entering the market because of lack of technical expertise and the inappropriateness of A.I.D. funding for services that compete directly with those of private sector suppliers.

2. Free zone management companies offer some potential for fee generation, through brokerage fees for locating new tenants. The IPC is currently seeking to exploit this potential, but it carries high risks and uncertain rewards. On the one hand, IPC's reputation and usefulness depend on its being viewed as a neutral source of information, a status that is jeopardized by accepting individual free zones as clients. On the other hand, the ability of free zone management companies to avoid paying brokerage fees, particularly for extensions or expansions of leases originally placed with IPC assistance, makes this source of income uncertain.

3. Local contractors, who often find it difficult to maintain operations at full capacity, offer perhaps the most promising clientele base, but one that would require IPC to upgrade drastically the skills base of its personnel and alter the mix of services offered. Local firms surveyed generally indicated a willingness to pay for assistance in obtaining contracts and appeared to place a higher value on the assistance received from IPC than did the foreign firms. Unlike the foreign firms, which generally bring with them established markets overseas, and the free zone managers, most of whom are sophisticated and well-capitalized entrepreneurs, many local firms do not have the capability to market their services effectively, nor is there an alternative commercial source to which they can turn for marketing services. Although IPC would face many of the same difficulties in determining that fees were due and collecting them as with brokerage fees for the zones, the potential to develop a loyal local clientele clearly exists. It should be emphasized, however, that a strategy based on assistance to local firms would require IPC to restructure its service mix, develop a staff base with greater technical skill in production and sales to permit it to deal effectively with a clientele that is itself lacking in such skills, and pare down its cost structure to a level consistent with the lower scale of

operation of its local clientele. These changes would be extremely difficult to achieve.

The dilemma facing IPC, and other nonmembership groups, is how to balance the organization's need to generate funds, which implies a concentration on specific services to specific clients, with the organization's role as a general promotional institution. The value of IPC to foreign investors and offshore firms seeking local contracting partners is that it serves as an impartial source of information about the resources available in the country. If IPC has a brokerage arrangement with certain parks or certain contract assembly firms, its credibility as a source of information is undermined. It is unrealistic to expect the organization to continue providing information regardless of the existence of a brokerage arrangement, and it is equally unrealistic to expect brokerage clients to pay fees to IPC if they do so.

Equally important, the pressure to generate fees will exert a steady and ultimately irresistible force in favor of promoting the industries and parks that are least in need of promoting. Rather than focusing its efforts on the hard work of bringing the first foreign investor into a new sector, IPC will tend to pursue additional firms in established sectors in order to generate a volume of brokerage fees. It will tend to go after large foreign firms that are most likely to make a large investment, rather than the medium-sized firms that most need the assistance. These parts of the business are the most profitable, and therefore they are also where private firms are already most active. An emphasis on fee generation therefore carries the additional danger of pushing IPC (and other similar organization) into areas in which its services are most likely to compete with those of existing private firms.

The choice is therefore between subsidizing the organization indefinitely, thereby constraining it to focus on areas in which fees are lower but social benefits higher, and encouraging it to become wholly reliant on fees, at the cost of losing many of the public good and externality benefits that motivated establishment of the organization in the first place.

Funds from other donors are only a partial solution to this dilemma. Like A.I.D. itself, the other donors want to fund innovative programs, not support an ongoing activity started by someone else. The search for donor funding therefore carries with it pressure to fragment and restructure the institution's program in order to attract new funding. Over time, this pressure can lead to the dissolution of the organization's strategy and central program.

4.3 Unit Costs: How High Would Fees Have To Go?

All of the organizations studied undertake both direct service activities, for which fees can be charged, and indirect service activities, for which fees cannot realistically be charged.[3] Without outside funding, the latter activities would have to be funded from a mix of general revenues such as membership dues and overhead charged for direct services.

All of the institutions studied are also relatively young or have only a few years of experience in export and investment promotion. As a result, all of the organizations must make substantial expenditures to build the organization itself, to learn about the environment in which they are operating, and to start up new programs.

This statement applies to impermanent institutions such as PROEXAG as much as to existing or permanent organizations such as GEXPRONT and JACC. The nature of the learning required by PROEXAG is somewhat different, focusing on the local environment and business community, whereas established local institutions face a greater need to learn about international markets. New organizations need to learn about both, and all organizations must address the need to develop management systems, hire and train local staff, and so on. In other words, institution-building activities are required, regardless of the nature of the institution or its planned permanence. These activities would have to be included in the organization's overhead rates if it were to be self-sustaining from the start.

How high would fees charged by these institutions on direct services have to be to recover their total costs? To answer this question, the team collected cost and output level information for as many services as possible. The results are summarized in Table E-2.

The estimates include three cost components:

1. The direct cost of providing the service (professional time, materials, and so on).

2. Proportional allocation of overhead and administrative charges, which include not only the basic expenses of running the organization, such as rent and

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[3]Direct service activities are activities that benefit a specific firm, such as technical assistance. Indirect service activities benefit the export sector generally, such as lobbying or advertising in U.S. trade journals.

Table E-2. Unit Cost Estimates for Selected Services Provided by A.I.D.-Supported Institutions and Projects

INVESTMENT PROMOTION INSTITUTIONS			
4.1	Training	$167	
2.5	Deal Making (Tra	$1,179	
1.4	Overseas Representation	$1,728	
3.2	Site Visit Support	$2,536	(1538-3533)
2.3	Trade Shows	$4,337	
2.4	Buyer Contacts	$7,769	

EXPORT PROMOTION INSTITUTIONS			
1.5	Foreign Market Information Price bulletins	$11	
1.3	In Country Q&A (phone)	$21	
1.1	Printed Information Magazine, Cost data	$41	(25-26)
4.4	Training	$237	
4.2	Market T.A.	$1,765	
4.1	Production/Processing T.A.	$1,893	(1204-2582)
3.1	Market Research	$2,459	
1.1	Printed Information Investment Profiles (Crop)	$2,951	
2.4	Buyer Contacts	$3,337	(434-6240)
3.2	Site Visit Support	$8,265	

Notes: a) Figures are averages of responses available. The range of responses is given in parentheses ( ).
b) All figures are in U.S. dollars, based on expenditures during 1989.
c) Units for the different categories are defined as follows: training (persons trained), deal making-trade (companies assisted) overseas representation (presentations made), site visit support (companies assisted), trade show (local companies attending),. buyer contacts (companies assisted), foreign market information (persons receiving), in country Q&A (telephone contacts), printed information (number of units printed), marketing T.A. (companies assisted), production T.A. (companies assisted), market research (reports completed)

administrative personnel, but the time of senior managers not spent on direct services and the time of professionals other than that accounted for by direct services to specific firms (preparation time, internal management, downtime, and so on).

3. Proportional allocation of expenditures on indirect services such as advertising in U.S. trade journals, lobbying for policy and legal reforms, and other activities that do not fall into direct service costs, yet are clearly not overhead.

The last two categories include all of the institution's costs not included in the first category.

These estimates must be regarded as illustrative only, for several reasons. First, the team was forced to use somewhat different methods for the various institutions, because it proved impossible to translate their budgets into a strictly comparable format. Second, the team generally allocated overhead and indirect service costs to each direct service activity based on the proportion of professional time devoted to each such activity, a method that assumes that overhead is proportional to staff time, even if some activities use non-staff inputs more intensively than others. Finally, the cost estimates implicitly assume that fees are the institution's only source of income and, specifically, that indirect services (such as lobbying and general promotion through advertising) do not generate revenues for the organization, whether from fees, dues, grants from private sources, or donor contributions.

These estimates may therefore be interpreted as estimates of break-even fees given the current program design. They estimate the level that fees would have to reach in order to recover the institution's total expenditures, including expenses associated with both direct and indirect services. The estimates would be substantially lower if the institutions were to reduce or eliminate indirect services. It is also likely that these costs will decline over time, after the investment period needed to establish new institutions and programs.

Two conclusions can be drawn from these figures:

1. Services that require intense, customized staff input (such as site visit support or buyer contacts) are much more expensive than those that use a standard package of assistance to serve a large number of firms (such as training and foreign market information).

2. Break-even fees would have to be very high to carry out many direct services on a full cost recovery basis. It

is unlikely that either local or foreign firms would be willing to pay fees at this level.

In other words, these organizations must be able to generate income in addition to their direct service activities in order to continue their indirect service programs and in order to continue providing intensive, customized service to specific firms.

This is not to say that fee income should be ignored. On the contrary, reasonable fees provide an important mechanism for rationing scarce staff time to ensure that it is devoted to serious clients. But fees must be viewed as just one element of a sustainable financing package, not as an answer in and of themselves.

5. ALTERNATIVE APPROACHES TO ACHIEVING SUSTAINABILITY

The impracticality of relying wholly on fee income underscores the need for A.I.D. personnel designing trade and investment promotion programs to give more attention to the relationships among the program of activities undertaken, the nature of the organization, and the funding package that is consistent with both.

In the early years, it is vital to strike an appropriate balance between providing enough funds to get the program off to a good start and providing so much funding that it reduces the organization's incentive to develop support from other sources. The long-term survival of the promotional organizations depends to a large extent on their ability to define, develop, and sustain a clientele group.

For membership organizations, developing a clientele requires educating the membership about the cost of the activities undertaken, to develop their willingness not only to pay reasonable fees and membership dues but also to support the organization's fund-raising. Development of sound medium-term financial plans in cooperation with member leadership should begin as soon as the organization is established and not wait for A.I.D. funds to begin to taper off.

For private entities, developing a clientele is more difficult but no less important. Simply providing services to firms (foreign or local) is not sufficient to develop a clientele. The organization's leadership must give careful attention to the definition of an appropriate clientele and to the measures necessary to mobilize and maintain the support of this clientele. Such measures may include self-promotional activities to keep members of the clientele aware of the

organization's contribution to their sector, development of an advisory board or other institution to represent the clientele, and services designed specifically to sustain the support of the clientele group. Like the membership organizations, the private entities should begin the difficult process of defining and developing outside funding sources from the very beginning, put together a medium-term financial plan that sets fund-raising targets, and demonstrate their ability to attract funding by meeting the targets in the plan.

The experience of the institutions studied suggests several mechanisms that can be built into promotional programs to supplement fee income and promote financial sustainability, as follows:

1. Endowment. The endowment being created by USAID/Costa Rica provides the most direct means of filling the gap between the fund-generating capabilities of promotional organizations and the desired program scale. Although the experience with endowments is limited, it would appear highly desirable not to fund the full financial requirements for any given organization, in order to preserve an incentive to develop and serve an identifiable clientele. Not every mission can generate the funds required for this approach, of course.

2. Tax earmarks. Activities for the public good can be supported by permanently allocating tax revenues through a mechanism such as a surcharge on the import tax that is earmarked for a promotional program (or an endowment to support such programs). For example, the association representing the free zone management companies in the Dominican Republic (ADOZONA) is currently working to establish such a system to fund promotional activities by the National Free Zone Council, the public regulatory body that oversees the zones.

3. Finding a fee-generating activity. A.I.D. gave major impetus to the establishment of JACC by incorporating the Agricultural Post-Harvest Inspection System (APHIS; actually a U.S. government program) into JACC. Because this service is in high demand, it offers a good source of revenue as well as giving a boost to JACC's image. Other activities that can be incorporated into the promotional program specifically to generate fees include freight consolidation and preparation of brochures for export businesses (the latter used, but not fully exploited financially, by the IPC). In using this mechanism, however, it is vital to carefully analyze the profitability and support requirements of

the service to ensure that it will generate a profit and not overly detract from the management of the public good and direct service activities.

4. Planned phase-out. The most straightforward approach to recognition that the promotional program is not self-sustaining is to plan from the program's initiation to scale the program back after 5 to 10 years. This approach is consistent with situations in which there is a need to make a concerted drive to attract investors or push potential exporters into action, to take advantage of a recent loosening of policy (as in Honduras), or to get things started (as in Belize). This approach does not necessarily require that a project-type institution be established; many associations or local nonprofit organizations have operated a program that had to be curtailed or eliminated altogether when funding was withdrawn.

These mechanisms should receive more careful consideration than they have in the design of promotional programs to date. Fee income by itself is not an adequate basis for financial sustainability, and without a reliable source for the funds necessary to maintain the staff, the programs, and the institution itself, none of the other requirements for sustainability outlined above can be met.

6. CONCLUSIONS

Six overall conclusions regarding the sustainability of the promotional institutions and programs emerge clearly from this discussion.

1. The A.I.D.-funded promotional programs studied are not sustainable at their current level without continued outside assistance, for which donor funds are the most likely source.

2. Increased cost recovery through fees and dues is highly desirable as a means of rationing and financing services for institutions with a strong need to develop and respond to a membership clientele, but in and of themselves fees will not be sufficient to sustain the programs at the current level.

3. The model most likely to experience long-term viability is that of Fundación Chile, characterized by a large

initial endowment, with significant private sector input and a narrowly focused range of services.

4. The membership organizations are sustainable as institutions and could continue many of the promotional programs receiving A.I.D. support, but at a lower level and with much greater emphasis on standardized, diffuse services to their membership (and reduction or elimination of customized services to a specific target clientele).

5. Investment promotion programs, particularly those implemented by independent promotional organizations, are wholly dependent on A.I.D or other support, and efforts to make them completely reliant on fee income are inconsistent with their mandate and therefore counterproductive.

6. Private sector input is vital to program effectiveness and direction, whether the institution is public or private. For institutions serving local exporters and investors, sustainability is enhanced by defining a specific private sector clientele and developing a mechanism, such as ProChile's or GEXPRONT's sector committees, that involves that clientele directly in program design.

The implications of these conclusions for A.I.D. programming in trade and investment promotion are addressed in Annex G.

ANNEX F

COST-BENEFIT ANALYSIS

1. INTRODUCTION

1.1 Overview of Central Issues for Investment and Export Promotion

Since 1986 A.I.D. has invested more than $20 million in three investment and export promotion programs: Investment Promotion Council ($6 million), CINDE/PIE ($13 million), and PROEXAG/ Guatemala ($3 million). Previous evaluations have identified these projects as some of the more successful in the LAC Private Sector portfolio. Skeptics maintain that these large outlays have not generated positive returns. This annex provides to provide some indicators of success.

The economic return generated by A.I.D.'s investment is central to any decision on A.I.D. programming. Whatever the sector under review, A.I.D.'s scarce resources must be directed to uses that offer the highest economic return, unless a lower return can be justified by equity or other considerations. The central issue raised by A.I.D.--investment in trade and investment promotion institutions is thus not specific to this sector; it may be stated as follows:

-- Do these programs generate economic benefits sufficient to justify A.I.D.'s investment?

The answer appears to be yes. The major finding of this analysis is that A.I.D. has received a satisfactory rate of return from its investments. All three programs generated rates of return of around 25 percent. The two investment promotion programs--IPC and CINDE/PIE--generated between $5 and $8 of exports for every program dollar expended. In the case of PROEXAG in Guatemala, about $1 in new exports have been generated for every program dollar expended.

1.2 Key Questions Raised by the Issues

This study attempts to address the preceding question by analyzing the rate of return associated with A.I.D.'s investment in the seven promotional institutions studied in depth in order to answer the following questions:

1. What is the economic rate of return on A.I.D.'s investment in promotional institutions?

2. Do the promotional institutions have a substantial impact on export and employment performance?

These two questions are not as closely related as they might appear at first glance. Although programs with a high rate of return by definition have a positive impact on the economy, it does not necessarily follow that their impact is significant. A program with a high rate of return may nonetheless have a marginal impact on national performance simply because its benefit level is trivial when compared with national export growth, employment requirements, and investments. Conversely, a very large program funded entirely by donor funds available exclusively for that program could well have a low or negative rate of return but nonetheless might exert substantial influence on national performance.

Achievement of the U.S. Government's CBI objectives requires that A.I.D.'s programs have a substantial impact at the national level as well as that they provide an acceptable rate of return.

1.3 Study Approach to Resolving These Questions

This analysis draws primarily on cost-benefit techniques to measure the economic return on the funds invested in three of the promotional institutions studied (CINDE/PIE, IPC, and PROEXAG's program in Guatemala). The analysis was limited to these three because the other institutions did not have sufficiently detailed measures of impact, in the form of a list of specific investments or exports attributable to their assistance.

The cost-benefit analysis uses the methodology developed in "Export Processing Zones" (Warr 1989), which measures benefits in terms of the difference between value-added in financial terms and value-added in economic terms (shadow-pricing labor, other domestic inputs and services, and foreign exchange). For reasons discussed further in the cost-benefit analysis section, the benefits used for this analysis were limited to an estimate of the value of additional employment created.

The cost-benefit analysis is supplemented by a discussion of cost-effectiveness measures to answer the second question above by placing the investment in promotional institutions in the context of its impact on exports and growth at the national level.

The following sections describe the methodology and findings. Section 2 presents the methodology and assumptions used for attributing benefits to the programs. Section 3 summarizes the

cost-benefit analysis, and Section 4 outlines the findings from the cost-effectiveness analysis.

2. METHODOLOGY AND ATTRIBUTION

The methodology used for the cost-benefit analysis consists of the following steps:

1. Identifying the benefits claimed by the programs;
2. Defining the net benefits to the country using shadow prices;
3. Identifying the level of attribution; and
4. Adjusting the stream of benefits (identified in Item 2) by the attribution percentages (Item 3) to calculate the economic rate of return

2.1 Benefits Claimed

All three of the programs monitor the level of benefits that are generated by new investments and export promotion sales. In the case of investment promotion programs, the primary benefit is new jobs created. Both CINDE/PIE and IPC regularly report on employment. For agricultural export promotion programs, the primary benefit is increases in exports that PROEXAG in Guatemala monitors.

For the period 1986 to 1989, the aggregate level of benefits claimed by each program is presented in Table F-1.

Table F-1. Benefits Claimed by Programs

Institution	Type of Impact	Claimed Amount
CINDE/PIE	Jobs	15,517[a]
IPC	Jobs	20,868[a]
PROEXAG	Export Sales	US$ 8.67 million

[a] Includes jobs generated by both foreign investors and local contractors.

Source: Monitoring reports from CINDE/PIE, IPC, and PROEXAG.

Aside from these benefits, there are additional benefits that can be estimated, including new investment and net foreign exchange. Only CINDE/PIE provides estimates for each of these areas. For the period 1986-89, CINDE/PIE estimates the total level of new foreign investment at slightly more than US$ 100 million. The net foreign exchange generated is estimated at about US$ 230 million.

These benefit claims can be adjusted according to data collected from our surveys. Both CINDE/PIE and IPC present employment generation data by firm. These figures can be compared with the actual firm employment data collected from the survey of assisted firms. The data from PROEXAG do not lend themselves to comparison. PROEXAG lists export sales by specific companies, exclusively on a "deal" basis. In contrast, our survey asked firms to list the total exports for all their crops.

The employment data from the survey suggest that CINDE/PIE has been conservative in its estimates of employment generation, whereas IPC has been slightly optimistic. CINDE/PIE estimates of employment generation for foreign investments and local contractors are on average about 70 percent and 40 percent, respectively, of the actual levels compiled from the survey. IPC estimates appear to be overstated by about 33 percent. Table F-2 shows the difference between the survey and institutional claims:

Table F-2. Comparison Between Survey and Institutional Claims

Institution	Jobs Claimed[a]	Actual Survey Results	Percent Actual Above/Below Claimed
CINDE/PIE			
Foreign	4,627	6,515	+40.8
Local	962	2,385	+147.9
IPC	4,718	3,117	-34.0

[a]These are jobs claimed by the institutions for firms that were included in the survey.

Source: Survey results, monitoring reports from CINDE/PIE and IPC.

The survey data are generally considered to be more accurate and current than the data reported by the institutions. In some cases, the employment figures provided by the institutions are those estimated by the firms at the start-up date of the investment. This is particularly the case with IPC where there is very little followup on job generation. CINDE/PIE has a post-

investment monitoring system, but it does not always have current information on all the firms considered assisted.

Given the data collection constraints on the institutions, it is quite possible that the original estimates provided by the firms (and not monitored by the institution) are below current levels. In the case of CINDE/PIE, it is also possible that the institution purposefully erred on the low side in its job generation estimates. Such conservatism protects the institution from accusations of inflating its accomplishments. This is particularly important because the job generation estimates are used for providing bonuses to overseas marketers.

Assuming that the survey sample is representative of the total assisted groups, the employment generation that can be attributed to CINDE/PIE and IPC is listed in Table F-3 below:

Table F-3. Adjustment of Total Jobs Generated

Institution	Total No. Jobs Claimed	Survey Adjustment Percentage	Total Jobs
CINDE/PIE			
Foreign investment	12,083	+41	17,010
Local contractors	3,493	+148	8,659
Total			25,669
IPC	20,868[a]	-34	13,773

[a] IPC did not have employment figures for all firms that they assisted. Imputed figures were used for missing employment data. The imputed figures were derived from averages for all the other assisted firms in that sector.

Source: Consultant survey; CINDE/PIE and IPC quarterly reports.

2.2 Country Benefits

The benefits claimed at the firm level differ from those that actually represent a net gain to a country. The methodology developed by Warr (1989) (and included in the cost-benefit analysis CINDE/PIE in Costa Rica) measures benefits in terms of the difference between value-added in financial terms and value-added in economic terms (shadow-pricing labor, other domestic inputs and services, and foreign exchange (Corrales 1990).

As discussed in the next section the benefits used for the analysis of investment promotion benefits primarily are limited to an estimate of the value of additional employment created.

2.2.1 Investment Promotion

In investment promotion programs, the principal benefit to a country is the new employment generated. Specifically, it is the difference between the market value and the economic value of labor. Labor generally accounts for a large percentage of the total value-added, ranging from 30 percent to 80 percent of total value added. A detailed study by Jorge Corrales in Costa Rica indicates that there are two types of benefit equations associated with investment promotion programs:

Free Trade Zone Firms:

Net Benefit = [L*W + D*PD + E*PE + I + T + O + U] - [L*W1 + D*PD + E*PE + T1 + O] * [SCF]

Non-Free Trade Zone Firms:

Net Benefit = [X-M] - [L*W1 + D*PD + E*PE + T1 + R + O] * [SCF]

X = Total exports (FOB)
M = Total imports (CIF)
L = Number of jobs generated
W = Average wage
W1 = Average shadow wage rate
D = Volume of domestic primary materials
PD = Price of domestic primary materials
E = Volume of consumed electricity
PE = Price of electricity
I = Amortization and interest from domestic loans
T = Social security taxes paid on labor
R = Building rent
T1 = Social security taxes that would have been paid even without new investment
O = Other payments for domestic services
U = Distributed utilities
SCF = Standard conversion factor (equals 1 divided by the official exchange rate/market exchange rate)

These equations represent the net benefit to society. Because of data limitations, the net benefit included in this analysis focuses exclusively on labor benefits (including taxes and social security paid). The survey did not ask for detailed responses for each of the above operating cost and revenue items on an annual basis. Time and resource constraints limited the survey to questions regarding jobs generated, overall level of export sales for 1986 and 1989 and overall percentage of costs that were imported.

Potential benefits that have been excluded from this analysis include

1. Benefits from use of domestic materials and services. It is assumed that in Costa Rica, the Dominican Republic, and Guatemala domestic services and materials would be used by other firms regardless of whether the new investment took place. This indicates a shadow price of 100 percent on materials, services, and electricity.

2. Profit gained from non-free trade zone investments. As shown in the Corrales equation, the profits of a non-free trade zone firm are a potential benefit (as well as cost, if the firm loses money). This benefit stream is applicable to Costa Rica, where many investments take place through export contracts and temporary admissions. This is not included because of the lack of detailed information on estimated profit. The survey did not ask non-free trade zone investors for their profit margin or estimated costs as a percentage of total sales.

3. Benefits from foreign exchange conversions. Many firms exchange dollars at official exchange rates that are often overvalued. The difference between the official exchange rate and the true value of foreign exchange is a benefit to that country. This foreign exchange benefit can be applied to any domestic purchases of labor, materials or services that require an exchange of dollars for local currency.

   This benefit has not been included in this analysis for the following reasons. First, all the costs claimed by the firms interviewed in our survey are given in dollars. We are not certain whether these figures are quoted at official exchange rates or black market rates. If they are stated at the latter price and we subsequently apply a shadow price for foreign exchange, we will be "double counting" the benefit. Second, it is uncertain to what extent firms have had to convert dollars. Some firms, particularly those outside the free trade zones, are able to sell some of their goods in local markets. The revenue from these sales could be used for purchasing local labor, materials, and services.

The principal benefit included in the cost-benefit analysis is thus the additional employment generated, measured by the total labor bill discounted to reflect the true incremental gain to the country. As shown in Table F-10, the shadow rate used for labor

in Costa Rica is estimated at 90 percent (in other words, 10 percent of the wage bill is considered a benefit to the country). This is comparable with the rate used in the Corrales report. This high discount rate reflects the relatively low level of unemployment. Official statistics estimated unemployment at between 4 and 7 percent during the period 1986-89.[1] This figure does not include underemployment, which could be as high as 15 percent by some estimates.

In the Dominican Republic the official level of unemployment has been much higher, between 20 and 25 percent.[2] This confirms the perception that there is a greater surplus of labor in the Dominican Republic than in Costa Rica. Consequently, the shadow wage rate used in this analysis is lower by about 7.5 percent, or an estimated 82.5 percent.[3]

The average wage bill for the Dominican Republic is also less than that for Costa Rica. The estimated annual wage bill in the Dominican Republic is about $2,200 ($7/day fully loaded) compared with $2,800 in Costa Rica ($8.80/day fully loaded). This wage bill reflects the wages paid plus other benefits.

Evidence from the survey suggests that most firms take one or more years to reach their current labor base (i.e., the 1989 base measured in the survey). For example, the employment base of manufacturing firms in 1986 is 50 percent of the employment base reported in 1989-90.[4] We have assumed even more conservative growth rates, beginning with 25 percent of the labor base reported in 1989-90. Over a 4-year period, the labor benefits are phased in as follows: 25 percent of the labor benefits in year 1, 50 percent in year 2, 75 percent in year 3, and 100 percent in year 4.

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[1]Centro de Promoción de Exportaciones e Inversiones (Costa Rica).

[2]Commercial Attaché, Dominican Republic Embassy.

[3]The calculation of shadow rates is derived primarily from the estimated unemployment rates for each country. A very detailed analysis would examine the output forgone in one sector as a result of employment by the assisted firm. Ideally, this would be calculated by sector (e.g. informal, agricultural, textiles, etc.). Due to time and resource constraints, however, our calculation is based on the national unemployment rates.

[4]It is not possible to use actual annual employment data from the survey, since the survey only asks about employment levels in 1986 and 1989.

2.2.2 Agricultural Export Promotion

The country benefits accrued from an agricultural export promotion program are similar to those estimated for non-free trade zone manufacturing firms. The benefit equation is

Net Benefit= [X-M]-[L*W1 + D*PD + E*PE + T1 + R + O] * [SCF]

X = Total exports (FOB)
M = Total imports (CIF)
L = Number of jobs generated
W = Average salary
W1 = Average shadow priced salary
D = Volume of domestic primary materials
PD = Price of domestic primary materials
E = Volume of consumed electricity
PE = Price of electricity
T = Social security taxes paid on labor
R = Land rent (see note below)
T1 = Social security taxes that would have been paid even without new investment
O = Other payments for domestic services
SCF = Standard conversion factor (Equals 1 divided by the Official Exchange Rate/Market Exchange Rate)

Note: There is no estimated shadow price for land. When the financial cost of land rental represents 20 percent or less of total operating costs, we assume that the economic cost is equal to the financial cost. This is consistent with guidelines used by other development agencies.

Similar to the investment promotion programs, the foreign exchange shadow rate is assumed to be 100 percent (hence, the standard conversion factor is assumed to be 1). In Guatemala, where the benefits of the PROEXAG program are included in the survey, the assumed shadow wage rate for labor is 70 percent. This is lower than the rates for Costa Rica and Dominican Republic because the unemployment rate in Guatemala is estimated at between 30 and 40 percent, nearly twice that of the Dominican Republic.[5]

2.3 Measurement of Attribution

A crucial question needs to be answered in cost-benefit analyses: Would this benefit have occurred without the investment? That is, what percentage of the claimed benefits can be attributed to the program?

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[5]Commercial Attaché, Guatemalan Embassy.

Our survey of 150 firms in three countries included several questions that asked firms to rank and quantify the extent to which a program was responsible for increasing exports. The answers to these questions provide some insight for defining attribution.

Two questions in the survey can be used to measure attribution:

-- Question E3: Based on a total of 100 points, how would you divide up credit for making your investment or exports go forward?

-- Question E4: What role did the institution play in your decision to invest in Costa Rica, to begin exporting, or to expand your export operation?

In this analysis the principal indicator used for measuring attribution is Question E4. An institution or program is considered to have had some impact (and therefore considered attributable to a firm's success) if its services were rated as "very useful" or "critical."

Based on responses to question E4, an overall attribution percentage was calculated for each institution:

Attribution % = X/Y

where

X = Number of assisted firms that claimed the institution played a "very useful" or "critical" role and
Y = Total number of assisted firms.

The overall level of attribution for each institution is given in Table F-4.

Table F-4. Level of Attribution

Institution	Percentage
CINDE/PIE	
Foreign investors	72.7
Local contractors	0
IPC	
Foreign investors	31.3
Local contractors	20.0
PROEXAG	55.6

Source: Consultant survey.

If the responses to Question E3 were to be used as the measure of attribution, the overall attribution rate would be lower. When asked, How would you divide up credit for making your investment or exports go forward?, most firms assigned 40 points or less to the A.I.D.-assisted institutions. The average points assigned to each institution were as follows: CINDE/PIE, 25 points; IPC, 20 points; and PROEXAG, 15 points.

The allocation of points in Question E3 did not always coincide with the answers to Question E4. For example, many firms that claimed an institution played a "critical" role (Question E4) assigned only 20 points of credit to the institution for making their investment or export go forward (Question E3). Others that said the institution was "very useful" allocated up to 40 points of credit.

In general, the level of attribution as defined by the allocation of points in Question E3 is lower than the attribution percentage derived from the Question E4 responses. This is because Question E3 asks firms to allocate points to all sources of assistance, including the firm's internal resources. When assigning points, most firms cited themselves as the most important resource for making exports happen. This is logical. Without the technical, financial, and business skills in a company, no investment or export can take place. In this context, it was difficult for any institution, no matter how critical a role it played, to garner more than 30 to 40 points.

Our definition of attribution attempts to measure whether an institution played a significant role--not necessarily the primary role. Question E4 asked firms to decide if an institution had any significant impact on their operations. The responses allowed for a clear grouping and definition of attribution. If they answered yes (by answering "very important" or "critical"), we considered that to be sufficient for attributing the firm to the institution. Our analysis did not try to distinguish between firms that claimed high impact ("critical") and those that claimed some impact ("very useful"). Impact, of any sort, was considered sufficient to claim attribution.

2.4 Adjusted Level of Benefits

Table F-5 presents the summary assumptions used for calculating the overall level of benefits attributed to each program. As shown in the table, the maximum annual benefits derived from institutional claims ranges from IPC's $8.0 million

per year to CINDE/PIE's $4.4 million and PROEXAG's $1.5 million.[6]

The most significant adjustments are made for CINDE/PIE. Survey results indicate that the employment benefits are 41 percent and 148 percent above the claims made for foreign investors and local contractors, respectively, by CINDE/PIE in its quarterly monitoring report. These employment adjustments increase the annual level of benefits to $7.2 million. The employment adjustment for IPC resulted in a decrease from $8.0 million in benefits down to $5.3 million. This is because its employment claims are about one-third more than the results found in the survey.

Table F-5
Economic Benefit Calculations
(thousands of US$)

	(A) Max. Ann. Benefit Stream[a]	(B) Adjustment Percentage	(C) Attribution Percentage	Net Maximum Annual Benefit (A * B * C)
CINDE/PIE				
Foreign investors	3,382.7	140.8	72.7	3,462.6
Local contractors	978.0	247.9	0.0	0.0
Average total	4,360.7		54.0	3,462.6
IPC				
Foreign investors	6,830.7	66.0	31.3	1,411.1
Local contractors	1,203.9	66.0	20.0	158.9
Average total	8,034.6		28.6	1,570.0
PROEXAG	1,455.8	na	55.6	809.4

[a] Annual benefit is calculated using the institutional benefit claims, multiplied by shadow discount rates.
[b] The adjustment percentage is the amount by which the survey estimates of job generation exceed or understate the institutional claims.
[c] This is derived from Question E4 in the survey, which asked: "What role did the following institutions play in your decision to invest in the country, to begin exporting, or to expand your export operations?" All firms that claimed some impact--that is "very useful" or "critical"--were counted as attributable to the program.

Source: Consultant survey; institutional estimates for the period 1986-89.

The final adjustment made to the benefit stream is for the overall attribution that can be credited to a program. In all three programs, the level of benefits is reduced. CINDE/PIE and PROEXAG had total reductions of about 50 percent, whereas IPC had a reduction of about 75 percent. The net benefit stream after

[6]These estimates include only the net benefit to the country after applying shadow wage rates.

attribution adjustments amounts to $3.5 million dollars for CINDE/PIE, $1.6 million for IPC and $0.8 million for PROEXAG. These estimates are in current terms. When deflated to 1986 dollars, the net benefit stream is as follows: CINDE/PIE, $3.3 million; IPC, $1.35 million; and PROEXAG, $0.7 million.

3. COST-BENEFIT FINDINGS

3.1 Major Findings

All three programs generated benefits that justify A.I.D.'s more than $20 million in investments. As shown in Tables F-10, F-11, and F-12, presented at the end of this annex, the estimated rates of return for each program are as follows: CINDE/PIE, 23.2 percent; IPC, 24.0 percent; and PROEXAG, 26.6 percent.

The level of benefits varies with each program. The maximum level of benefits (stated in 1986 dollars) achieved in CINDE/PIE is about $3.3 million beginning in 1992, compared with the $1.3 benefit flow achieved by the IPC program. The lowest level of benefits is in the PROEXAG program, which will reach $0.7 million in 1990.

These rates of return indicate that each program appears suited for the country environment in which it operates. The best example of this is seen when comparing CINDE/PIE and IPC. The CINDE/PIE program costs more than twice the IPC program primarily as the result of the staffing of six overseas offices. These investments have always been assumed to be necessary in order to better advertise Costa Rica (the Dominican Republic is better known among foreign investors and therefore does not have to staff as many overseas offices). These overseas expenditures appear justified because the overall level of attribution (and hence the level of benefits) associated with CINDE/PIE firms is higher.

In the case of CINDE/PIE, the rate of return supports the findings from a rate of return analysis completed by Jorge Corrales, in which he estimated a rate of return of 16 percent. Both studies estimate the same level of benefits. The major difference between the two studies lies in the estimated start-up costs of CINDE/PIE and the phasing in of benefits during the first four years.

The Corrales report estimates that CINDE/PIE expended about $4.3 million in 1986 compared with our estimate of about $2.8 million. This difference is primarily because the Corrales report received estimated costs from CINDE/Central (the principal

administrative body), whereas we received our costs directly from CINDE/PIE. It is possible that (a) CINDE/Central allocated more overhead to CINDE/PIE (although $1.5 million more seems improbable), or (b) costs from previous years' operations were included in the CINDE/Central estimates.

Our benefit flow analysis indicates a positive net foreign exchange benefit flow in 1986, whereas the Corrales report does not register a positive flow until 1990. The Corrales report is based on more complete data and may be more precise in its benefit flow calculations. Its survey of companies measured cash flows by year, whereas our study only provided aggregated value-added estimates for 1989. The Corrales report was better able to distinguish between free trade zone benefits (those in which the primary benefit is from employment) and non-free trade zone benefits (see equations in Section 1.2.1). This latter group of companies may well have registered losses during the first 2 of years of operation, which our analysis does not assume.

3.2 Sensitivity Analysis

Sensitivity analysis indicates that the rates of returns are still significantly positive, despite downward adjustments in the benefit streams. As shown in Table F-6, all the programs, with the exception of CINDE/PIE in one instance, register rates of return higher than 15 percent after the following adjustments: (1) attribution percent is reduced by 25 percent (of the original percentage); (2) benefits are delayed by 1 year; (3) labor shadow wage rate is increased by 5 percent; and (4) unadjusted job generation estimates provided by institutions are used. The affects of these adjustments on rates of return are given in Table F-6.

CINDE/PIE is most sensitive to an upward adjustment of the labor shadow wage rate. As mentioned in Section 2.2.1, the assumed shadow wage rate for labor in Costa Rica is 90 percent. If this is increased to 95 percent, the rate of return drops to 9.6 percent. Such an increase may be possible in the future, particularly since the labor market in Costa Rica has recently shown some signs of heating up (i.e., near to reaching full employment). For the period 1986-89, however, it would probably be overly pessimistic to assume such a high rate.

The delay in benefits also appears unlikely given our already conservative estimates for phasing in benefits. Our assumption for growth percentages for employment generation are nearly one-half the employment data results collected from the survey.

Table F-6. Rate of Return and Sensitivity Analysis (percent)

	CINDE/PIE	IPC	PROEXAG
Baseline scenario[a]	23.2	24.0	26.6
Reduce attribution by 25 percent	16.8	17.3	18.7
Delay benefits by one year	18.9	19.1	21.1
Increase labor shadow rate by 5 percent	9.6	16.3	25.8
Unadjusted job generation	15.7	37.0	na

Note: na = not applicable.

[a] Baseline scenario assumes that the attribution percentage is equal to the percentage of assisted firms that claim the institution had some impact on exports (Question E4 from survey).

Source: Consultant survey; institutional benefit estimates.

3.3 Adjustments in Attribution

The most important area of dispute is attribution. Section 2.3 describes the methodology used for defining attribution, but these are only estimates. There is no precise method for defining when a firm is in an institution's promotional net.

This uncertainty leads to the questions: "What if?" Some of the more common "what if" scenarios focus on redefining attribution by

1. The answers to Question E3, which asked firms to allocate credit based on 100 points for making their investment or export go forward;

2. Measuring only those firms that claimed the institution played a "critical" role (and excluding all those that answered "very important" in Question E4);

3. Using the difference in growth rates between the assisted firms and the unassisted firms in the survey as a proxy indicator of attribution.

Table F-7 summarizes the effect that a reduced attribution rate would have on each program's rate of return.

Table F-7. Adjusted Attribution Rates

Attribution Percentage	Rate of Return (%) CINDE/PIE	IPC	PROEXAG
100	43.6	80.8	51.8
90	39.2[a]	72.1	45.9
80	34.9	63.7	40.2
70	30.5[b]	55.4[a]	34.6[a]
60	26.0	47.3	29.0[b]
50	21.5	39.2	23.5
40	16.7	31.2[b]	18.0
30	11.5[c,d]	23.0[c]	12.2
20	5.6	14.2[d]	5.8[c]
10	-2.3	3.7	-2.4[d]

[a]Rate of return for attribution as defined by the difference in growth rates between assisted and unassisted firms.
[b]Rate of return for level of attribution used in baseline analysis (Question E4).
[c]Rate of return for level of attribution derived from Question E3.
[d]Rate of return for attribution as defined by percent of firms that claimed an institution played a "critical" role.

Source: Consultant survey.

Even if the attribution rates are reduced, the rates of return still remain positive. The cutoff point at which each program's rate of return drops below 15 percent is around 40 percent attribution for CINDE/PIE and PROEXAG and 20 percent for IPC.

All the programs register rates of return above 15 percent for at least two out of the four attribution definitions presented above. The rates of return for all three programs drop below 10 percent when only those firms that considered the institution "critical" are included. Finally, when attribution is defined by Question E3 in the survey, the only program that does not drop below a 10 percent rate of return is IPC.

3.4 External Benefits

The preceding sensitivity analysis demonstrates the impact that different attribution rates can have on rates of return. Much of these downward adjustments, however, could be offset by benefits not included in the analysis.

There are several external but nonquantified benefits that are associated with these programs. Some prominent potential benefits include

1. Future Expansion. None of the investment promotion analyses takes into consideration potential benefits resulting from the expansion of a firm's operations. All labor benefits are assumed to reach and never surpass the levels claimed in 1990;

2. Future Investments. This analysis does not capture the benefits that result from the "bandwagon" effect. Often, foreign firms look to invest in a country after finding out that competitor firms have invested overseas. Our analysis does not include any additional investments that result from the country developing a reputation (as a result initial investments), which in turn attracts additional investors.

3. Future Crop Development. The PROEXAG project includes a production department that tests and introduces new varieties that have export potential. These test crops can take up to several years before they result in exports. Although the investment costs of these activities are included in the cost-benefit analysis, none of the potential benefits is included in the analysis.

4. Improved Business Environment. Most of the institutions perform functions that help to remove inefficiencies in the macroeconomic environment. For example, both CINDE and IPC organizations have an active lobbying arm. These lobbying efforts can play a role in persuading government officials to remove barriers to investment and export. Because it is difficult to quantify attribution for policy reform, however, the benefits from these efforts are not included in the analysis. Along the same lines, the benefits from training programs are also excluded.

Besides the above externalities, there are other benefits that have not been included. One of the most significant are the benefits resulting from a gap between the official foreign exchange rate and market rates. This foreign exchange benefit most probably existed in all the countries surveyed but was not included because survey data did not allow for exact estimates. On average, the official exchange rates in Costa Rica, the Dominican Republic, and Guatemala were overvalued (as judged against black market rates) by 5 to 10 percent. If this benefit were included in the analysis (assuming a 95 percent shadow price on foreign exchange), the rates of return for the IPC and

CINDE/PIE program would increase to 31 percent and 37 percent, respectively. This is because of the large percentage of foreign exchange that must be converted into local currency for wages. In the agricultural sector, the foreign exchange benefit would be much less. For example, the rate of return for the PROEXAG program only increases by about 3 percentage points to about 30 percent.

Another potential benefit not included is the value-added resulting from the purchase of domestic materials and services. Governments typically encourage free-trade zone firms to use local materials and services (packaging materials, electricity, etc.). Presumably, this encouragement results from the belief that the prices paid by foreign firms exceed the marginal social costs of supplying them.

4. OTHER FINDINGS

Besides the cost-benefit analysis, there are other indicators that show that the programs have generated positive and significant returns. Two such measures are presented in Table F-8 cost per job generated, and dollar value of export sales per program dollar expended.

Table F-8. Cost-Effectiveness Indicators

	Total Program Cost (1986-89) ($)	Cost Per Job ($)	Maximum Yearly Exports Per Program Dollar ($)
CINDE/PIE	12.9 million	1,043	7.5
IPC	5.2 million	1,316	5.3
PROEXAG	2.9 million	4,307	0.9

Notes: All cost and export estimates are in 1986 dollars. Cost per job estimates are for jobs attributed to the institution.

Sources: Consultant survey; institutional estimates.

The most cost-effective programs for employment generation are the investment promotion programs. The CINDE/PIE program helped generate employment (measured in terms of attributable employment only) at an approximate cost of $1,000 per job. The IPC program cost about $1,300 per job. The PROEXAG program (which did not focus on employment generation as much as export sales) cost about $4,300 per job.

In terms of export sales generated, the most effective program has been CINDE/PIE. CINDE/PIE's investment of $12.9 million resulted in incremental annual export sales of $97.2 million or about $7.5 per program dollar expended. Maximum annual exports generated by IPC amounted to $27.6 million or about $5.3 per program dollar expended. Finally, the PROEXAG program generated about $0.9 in exports for every program dollar expended because most of PROEXAG's benefits come from deal-making (finding foreign buyers), which began in earnest only in the last couple of years.

At the national level, the level of exports generated by each institution is most significant in the CINDE/PIE program followed by PROEXAG and IPC. As shown in Table F-9, the CINDE/PIE program has accounted for about 31 percent of the country's total incremental growth in export sales. In the case of PROEXAG, the program accounted for about 12 percent of total incremental nontraditional agricultural sales in Guatemala. Finally, the IPC program contributed about 4 percent to the Dominican Republic's incremental manufacturing exports.

These findings demonstrate that the role played by an institution or program depends on where the country is on the export learning curve. In Costa Rica, a relatively small manufacturing base in 1986 ($220 million) allowed CINDE/PIE to make a significant contribution to the country's incremental export base. In the Dominican Republic, where the export base is nearly twice that of Costa Rica's, the IPC's contribution in both percentage and absolute terms is less significant. Finally, the PROEXAG program in Guatemala appears to lie somewhere between CINDE/PIE and IPC.

5. CONCLUSIONS

This analysis strongly suggests that promotional institutions can play a significant and positive role in A.I.D.'s strategy to promote trade and investment. This is particularly true in environments that are reasonably favorable. The three institutions studied were effective in helping local and foreign investors respond to opportunities. Support to these promotional institutions offers an attractive economic rate of return to donor resources. The cost-benefit analysis estimated a rate of return on the order of 20 percent in constant terms for all three institutions.

These rates of return are quite sensitive, however, to how benefits and attribution of benefits to the institutions are defined. The level of responsibility allocated to the institutions ranged from 30 percent to 70 percent. When these

Table F-9. Export Sales as Percentage of National Sales
(Calculated on an incremental basis)

Institution	1986			1987			1988			1989			TOTAL		
	Total Exports			Total Exports			Total Exports			Total Exports			Total Exports		
	Country	Institution	(%)	Country	Institution	(%)	Country	Institution	(%)	Country	Institution	(%)	Country	Institution	(%)
1. IPC[a]	84.2	0	0.0	186.4	10.8	5.8	244.8	14.4	5.9	216.5	5.9	2.7	731.9	31.1	4.2
2. CINDE/PIE[a]	55.9	28.3	50.6	58.5	28.5	48.7	104.3	33.7	32.3	133.2	18.8	14.1	352.0	109.3	31.0
3. PROEXAG[b]	6.4	0.1	1.3	6.0	0.6	10.3	1.4	1.1	77.1	10.1	1.0	9.9	24.0	2.8	11.6

[a] Total exports only estiamted for manufacturing sector.

[b] Total export only includes nontraditional agricultural exports.

SOURCE: Institutional estimates; U.S. Department of Commerce, Imports for for Consumption, customs value 1989.

attribution levels were cut by more than one-fourth, the rate of return for each program dropped below 15 percent. When other benefits, primarily those resulting from foreign exchange gains, were assumed, the rates of return for the two investment promotion programs exceeded 30 percent.

Despite the attractive rate of return on investments, the promotional institutions, by themselves, do not appear to provide an adequate response to a country's need to increase nontraditional exports. For the most part, the impact of these programs is small compared with the national level. The percentage of additional exports attributable to the efforts of the promotional institutions ranged from a low of 4 percent of incremental national exports for the IPC, to 31 percent for CINDE/PIE, with PROEXAG in the middle at 11 percent. These findings suggest that promotional programs can make a significant contribution, but that favorable policies account for most of the growth in nontraditional exports.

Table F-10. Economic Rate of Return for CINDE/PIE

	1986	1987	1988	1989	1990	1991	1992-2005
Benefits[a]							
Labor							
Investment	218,704	645,074	1,284,903	2,022,308	2,712,194	3,116,103	3,273,819
Contracting	0	0	0	0	0	0	0
Primary Materials							
Investment	0	0	0	0	0	0	0
Contracting	0	0	0	0	0	0	0
Services							
Investment	0	0	0	0	0	0	0
Contracting	0	0	0	0	0	0	0
TOTAL	218,704	645,074	1,284,903	2,022,308	2,712,194	3,116,103	3,273,819
Costs[a]							
CINDE/PIE	2,340,794	2,299,026	3,389,114	3,256,536			
CINDE/CENTRAL OVERHEAD	436,964	795,321	333,354	292,834			
TOTAL	2,777,758	3,094,346	3,722,468	3,549,370			
Cost/Benefit Stream	(2,559,054)	(2,449,273)	(2,437,565)	(1,527,062)	2,712,194	3,116,103	3,273,819
Economic Rate of Return, %	23.2						

[a] Deflated to 1986 dollars.

Assumptions for CINDE/PIE Rate of Return

	Attribution	Employment Adjustment (Derived from Survey)
A. Attribution and Adjustment %		
Investment	72.7	140.8
Contracting	0.0	247.9

B. Actual Jobs	1986	1987	1988	1989
Investment	3,051	3,068	3,634	2,328
Contracting	470	46	1,096	1,881

C Attributable Jobs (Actual jobs multiplied by Attribution and Adjustment %)

					Total
Investment	3,124	3,142	3,721	2,384	12,371
Contracting	0	0	0	0	0
					12,371

	Year 1	Year 2	Year 3	Year 4	Year 5
D. Phasing in of Jobs	25%	50%	75%	100%	100%

E. Annual Wage Bill $2,800

F. Shadow Discounts

	Benefit Differential 100%-(C)	(A) Shadow Discount	(B) Standard Conversion	(C) Discount % (A)*(B)
Labor	10%	90%	100%	90%
Materials	0%	100%	100%	100%
Services	0%	100%	100%	100%

G. Allocation of Costs

Labor Costs as percentage of total	80%
Domestic Materials and Services	5%
As percentage of total	15%

Table F-11. Economic Rate of Return for IPC

	1986	1987	1988	1989	1990	1991	1992-2005
Benefits[a]							
Labor							
Investment	0	141,310	448,639	751,970	1,072,972	1,262,946	1,284,006
Contracting	0	0	3,695	28,158	52,767	73,827	73,827
Primary Materials							
Investment	0	0	0	0	0	0	0
Contracting	0	0	0	0	0	0	0
Services							
Investment	0	0	0	0	0	0	0
Contracting	0	0	0	0	0	0	0
TOTAL	0	141,310	452,333	780,129	1,125,739	1,336,773	1,357,833
Costs[a]							
A.I.D. Funds	256,178	754,205	2,113,020	1,375,117			
Counterpart	114,013	335,663	257,254	82,549			
General	1,024	3,015	4,994	4,012			
Partners (Socios)	0	0	0	51,465			
TOTAL	371,216	1,092,882	2,375,267	1,513,144			
Cost/Benefit Stream	(371,216)	(951,572)	(1,922,934)	(733,015)	1,125,739	1,336,773	1,357,833
Economic Rate of Return, %	24.0						

Assumptions for IPC Economic Rate of Return

	Attribution	Employment Adjustment (Derived from Survey)
A. Attribution and Adjustment %		
Investment	31.3	66%
Contracting	20.0	66%

B. Actual Jobs	1986	1987	1988	1989
Investment	0	7,242	9,336	1,164
Contracting	0	0	307	2,820

C. Attributable Jobs (Actual jobs multiplied by Attribution and Adjustment %)

					Total
Investment	0	1,496	1,929	240	3,665
Contracting	0	0	0	0	413
					4,078

	Year 1	Year 2	Year 3	Year 4	Year 5
D. Phasing in of Jobs:	25%	50%	75%	100%	100%

E. Annual Wage Bill $2,200

F. Shadow Discounts

	Benefit Differential 100%-(C)	(A) Shadow Discount	(B) Standard Conversion	(C) Discount % (A)*(B)
Labor	17.5%	82.5%	100%	83%
Materials	0%	100%	100%	100%
Services	0%	100%	100%	100%

G. Allocation of Costs

Labor Costs as percentage of total	80%
Materials as percentage of total	5%
Services as percentage of total	15%

Table F-12. Economic Rate of Return for PROEXAG/Guatemala

	1986	1987	1988	1989	1990	1991	1992-2005
Benefits[a]	24,196	198,985	492,018	590,066	736,849	736,849	736,849
Costs[a]	550,929	923,415	769,040	712,857	0	0	0
PROEXAG Program	385,650	646,391	538,328	499,000			
Regional Overhead	165,279	277,025	230,712	213,857			
Net Benefit	(526,732)	(724,430)	(277,021)	(122,791)	736,849	736,849	736,849
Economic Rate of Return, %	26.6						

[a] Deflated to 1986 dollars

Assumptions for PROEXAG/Guatemala Rate of Return

	1986	1987	1988	1989	1990	1991	1992-2005
A. Export Sales Claimed by PROEXAG	150	1,257	3,220	4,020	5,020	5,020	5,020
B. Attribution %			55.6%				
C. Export Sales Adjusted by Survey	83	699	1,790	2,236	2,791	2,791	2,791
D. Net Country Benefit as percentage of total sales (See "Country Benefit Calculation" below)		29.0%					
E. Total Benefit Stream	24	203	519	648	810	810	810

DERIVATION OF COUNTRY BENEFIT

	Unadjusted Survey Results	Adjusted by Shadow Prices
Total Export Sales:	21,697,000	21,607,000
Costs:	16,205,250	15,338,280
1. Imported Goods	4,051,313	4,051,313
2. Labor	2,889,900	2,022,930
3. Materials/Services/Land	9,264,038	9,264,038
Net Benefit:	5,401,750	6,268,720

Assumptions for PROEXAG (Continued)

Net Benefit as Percentage of Sales:	25%	29%

Key Assumptions:	Import Percentage of Total Costs:	29%
	Average Profit Margin:	25%
	Shadow Discount Rates:	
	(a) Labor	70%
	(b) Domestic Materials/Services	100%
	Standard Conversion Factor	100%

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ANNEX G

IMPLICATIONS FOR A.I.D. TRADE AND INVESTMENT PROGRAMMING

1. INTRODUCTION

1.1 What Are the Main Issues for A.I.D. Support to Investment and Export Promotion?

The central issue for A.I.D. programming is simply stated.

-- Do trade and investment promotion organizations merit continued A.I.D. support?

This section summarizes the study findings to answer this question and suggest future directions for A.I.D. programming in trade and investment promotion. Before turning to this task, it is important to emphasize that an affirmative answer to this question does not imply that every A.I.D. mission should fund one or more promotional institutions, nor does it imply that every export and investment promotion program will work. Whether funding should be provided in any given country and what form assistance should take depend on both the country assistance strategy and the nature of the institutional candidates for support.

1.2 Key Questions Raised by the Issues

This issue paper focuses specifically on three questions.

1. Where do promotional institutions fit into a strategy to promote investment and export growth?

2. Given the findings of the institutional, financial, and other analyses undertaken, what service strategies are most appropriate for investment and export promotion and offer the greatest return for A.I.D. support?

3. What institutional models appear to offer the best vehicles for delivering these packages?

No study can answer these questions definitively, and consequently this section will conclude with a brief review of unanswered questions and possible future directions for research.

1.3 Study Approach to Resolving These Questions

This section draws together the findings from each of the separate analyses reported in Annexes A-F to assess the implications for A.I.D.'s future programming in trade and investment promotion. Its methodology consists of looking not at specific countries and institutions studied rather the broader principles and lessons learned.

2. DO PROMOTIONAL INSTITUTIONS BELONG IN A DONOR STRATEGY TO PROMOTE TRADE AND INVESTMENT?

The evidence of this study points strongly toward an affirmative answer to this question, that is,

-- Export and investment promotional institutions can contribute to export growth and diversification.

Particularly when the climate for foreign investment and exports has recently improved after a long period of neglect, these institutions have a role to play in helping both local and foreign investors to respond to the opportunities available. Sound promotional institutions and programs are therefore good candidates for donor support as part of a program to promote trade and investment.

Support to promotional institutions offers an attractive economic return to donor resources. The cost-benefit analysis estimated the real economic rate of return on the total costs of the promotional institutions studied to be on the order of 20 percent.

This rate of return is quite sensitive, however, to how the benefits are measured. Promotional institutions generate benefits through jobs and exports, but they do so only indirectly. The firms they assist, not the promotional institutions, actually generate the benefits. The appropriate attribution of such benefits to the promotional institutions is therefore an issue of major concern in analyzing the contribution of such institutions. If a given investment would not have taken place at all without the institution's support, is it appropriate to attribute all of the economic benefits to the institution, or only a part? What about cases in which the investment might have taken place without the assistance, or would surely have taken place (and how can the role of the promotional institution be measured)? The analysis reported here asked the assisted firms surveyed to attribute credit for making their investment go forward and used their responses to assign a portion of the

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estimated economic benefits to the promotional institutions. This proportion ranged from about 30 to 70 percent for the three institutions included in the cost-benefit analysis.[1]

Despite the attractive rate of return to investments in promotion, promotional institutions, by themselves, are clearly an inadequate response to the need to increase nontraditional exports. Their impact is simply too small at the national level, unless A.I.D. support is very large relative to national exports. The study suggests a rule-of-thumb of a $5 increment to exports in the short term for each dollar invested in foreign investment promotion, and perhaps one-third that level for agricultural export promotion (about 30 cents per year).[2] To double nontraditional exports from $100 million to $200 million during a 5-year period would require assistance of $20 million for foreign investment promotion during the period and $60 million for local agricultural firms.

These are extremely rough estimates, but they suggest that promotional institutions are likely to have a large impact on exports in percentage terms only when expenditures are high relative to the nontraditional export base. Costa Rica's experience with CINDE, which claims direct involvement in exports amounting to roughly half of the increase in NTEs since 1983, is an example of a large impact achieved through large expenditures of money; IPC is an example of a relatively small impact achieved by spending much less money to influence a much larger export sector.

All of these findings apply only when policies favor export and investment. When the policy environment is unfavorable to exports, the returns to promotional investments are far less certain. Because the cases studied were chosen to represent promotional programs in a favorable policy environment, the study's conclusion applies only to such situations. Promotional institutions can help to expand exports in a favorable environment and can provide an attractive return to the donor dollar; whether the same is true in an environment where export-oriented investment is not financially attractive remains highly uncertain.

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[1] Only three institutions-CINDE/PIE, IPC, and PROEXAG-were able to provide a specific list of investments and exports for which they claimed credit. The cost-benefit analysis was therefore limited to them.

[2] A similar estimate was not possible for promotion of exports by local manufacturing firms, because none of the institutions studied was able to provide a detailed list of exports by assisted firms in this group.

3. WHAT SERVICE STRATEGIES APPEAR TO WORK BEST AND OFFER THE GREATEST RETURN FOR A.I.D. SUPPORT?

No single service mix is optimal for all conditions; there is no "magic formula" for effective promotion. The study does, however, suggest several ingredients that should be at the top of the list in developing the right mix for a specific situation.

The study found not one, but several alternative strategies that appear to work. Each viable strategy consists of three components.

1. Clientele. Local exporters need services altogether different from foreign firms; agricultural firms need the same general types of services that manufacturing firms need, but the specific nature of the service is sector- and product-specific.

2. Service strategy. Services may be customized (adjusted to the needs of the individual client) or standardized (provided in the same form to a large number of clients). Services may be concentrated on a few clients, generally members of a specific target clientele, or diffuse, providing a little assistance to a lot of firms. Customized service programs tend to be concentrated, because of budgetary constraints, and standardized programs tend to be diffuse.

3. Institutional structure. Each strategy identified uses one (or at most two) of the following institutional structures: a membership organization, a government unit, an independent private entity, and a project implementation unit.

The study reaches three key findings on these components and their interaction to form a viable strategy.

1. An effective promotional program can be developed for each of the clientele groups--foreign firms, local manufacturers, and agricultural firms--but the different needs of each group imply that any given program should be directed at only one.

2. A customized, concentrated service strategy can be made to work well for each clientele group, as can a standardized, diffuse strategy, but not both at once in the same institution.

3. Once the clientele and service strategy are selected, a single institutional structure appears to work best.

If there is a conventional wisdom in the field of trade and investment promotion, it is that customized, targeted, intensive services have an impact, and standardized, diffuse services do not. Pushed to the extreme, the conventional wisdom characterizes standardized services as the choice of government institutions that lack the resources and expertise to do anything else, and customized services as the preferred option, the "luxury item" of promotional programs.

A principal finding of this study is that this conventional wisdom may be wrong. Standardized services, such as printed information and foreign market price information, are among the services that firms are most likely to receive and, more important, among the services most likely to have an impact on the recipient, whether foreign or local.

The study suggests that one of the most important contributions of a promotional program is to increase the number of firms in the "net" of potential investors. Information, including standardized information on prices and operating conditions, emerges as the single most important ingredient in a strategy to expand the pool of candidate investors and exporters.

For foreign firms, the best way to bring more firms into the net is to find as many firms that are considering overseas investment as possible and do everything possible to get the promoted country on their short list. Once a given firm decides to seriously consider the target country, the important work of the promotional institution is essentially done; the decision to invest or not to invest will be made on the fundamentals (wage rates, regulatory climate). Additional promotional support (help in setting up the site visit, for example) can be important in ensuring that the firm gets the right information on the country and makes the right contacts, but the information and the contacts, not the assistance itself, makes the difference.

A similar picture emerges for local export firms. For local firms, the number of firms in the net is expanded most easily by finding firms that are ready to export and helping them to contact overseas buyers and to learn how overseas markets are organized. For manufacturing firms (and agricultural firms selling a specialized product for processing), this may be enough. Most of these firms engage in contract production, and the study found that their buyers provide the technical assistance they need.

For agricultural firms selling into the fresh market, however, information may not be enough. These firms sell to dealers who, unlike contractors, have no real interest in helping their suppliers to improve the quality, efficiency, or productivity of their operation. Technical assistance for

production is therefore important to this group, and they have few alternative sources to turn to for help.

In all three cases, the missing ingredient provided by the promotional institution is information, but the specific nature of the information varies with the clientele. Generalizing across all three groups, two types of information are needed:

1. Facts about the market and how it works. For foreign firms, this information includes the cost of production in the target country; for local firms, information needs include price data and information on import regulations.

2. Contact names. For foreign firms, this information includes referrals to local professional firms, suppliers, free zones, and the like; for local firms, the most important contacts are buyers.

The finding that information is the key ingredient is attractive for both practical and theoretical reasons. On the practical side, standardized information is one of the cheapest services to provide on a per firm basis. Nevertheless, the cost of providing information per recipient firm varies widely depending on the form that information takes, and it can be expensive to promote activities such as preparation of investment profiles or on-site presentations to potential investors. It would be premature to conclude that relatively inexpensive forms of information outperform more expensive forms dollar for dollar. Additional research is needed to determine whether the more costly means of providing information are cost-effective relative to less expensive approaches.

A second practical advantage is that standardized information is relatively easy to provide. Local personnel with little experience or specialized knowledge can be trained to assemble, organize, and provide their clients with information from existing databases on prices, directories, and other readily available sources.

From a theoretical standpoint, the finding that information is highly valued by firms helps to justify the subsidy inherent in donor support to promotion. Subsidies are most appropriate when there is market failure. Poor or uneven availability of information is among the most common causes of market failure and is highly characteristic of developing countries emerging into export markets.

What happens to firms that are not in a position to benefit from information? Does a strategy designed around firms' information needs mean that firms that need more than just

information should be pushed to the bottom of the queue in order to help firms that are almost ready to export? Yes, it does, if the same amount of assistance can help several firms to export (and create jobs and earn foreign exchange), instead of helping one firm to almost export.

The value of emphasizing standardized information should not be carried to the extreme of condemning customized services, including customized information such as market research studies or technical assistance. The study found that technical assistance, particularly training and technical assistance for production, is highly valued by local firms that received the service (although technical assistance in marketing had a higher correlation to export performance). But the study found that technical assistance is much more expensive per recipient; moreover, local manufacturing firms are often able to get assistance from their buyers. With a limited level of funding, many more firms can be provided with information than can be provided with technical assistance. If the right firms receive this assistance at the right time, the total impact could well be much higher than that of intensive assistance to a few.

Nor does a strategy based on information imply that promotion should be a temporary activity, continued for a comparatively brief period at the end of which all firms have the information they need. On the contrary, information-based promotion should arguably continue indefinitely, always seeking to operate at the frontier at which a new crop of firms needs assistance.

For local firms, the frontier moves as new firms reach the point where they have the basic capacity to export but need help in contacting a buyer who can provide the technical assistance and marketing expertise enabling them to move into the export market. For foreign investors, the frontier shifts as changing conditions in the target country make it attractive to firms in sectors that do not have an established presence in the country.

This frontier is not stable across countries or even within the same country over time. Even when a country is well-known in a particular sector--as the Dominican Republic is in textile assembly, for example--that same country may be all but unknown to potential foreign investors in another sector, such as pharmaceuticals or data processing. A change in the local policy climate (or, equally likely, a change in U.S. import restrictions) may create a newly profitable niche that foreign investors will fill if they know it exists.

The frontier is equally mobile for local export firms. At any given point in time, the national entrepreneurial base is likely to include a relatively small number of firms that are

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already established exporters (and therefore do not need assistance), a very large number of firms that are not even close to being ready to export (and might not be able to reach this level even with intensive assistance), and a number of firms in the middle. This last group is the most appropriate target for assistance, whether intensive, customized support, or diffuse, standardized services. How large this group is at any given time, and its sectoral composition, is clearly a question that must be answered country by country, taking into consideration not only the nature of the entrepreneurial base but also the policy environment within which it operates. In export promotion as in investment promotion, a shift in policy can create a new opening for exporters, or slam closed a window of opportunity.

Promotional organizations need the flexibility and planning capability to identify the frontier and then to adjust their program to serve firms in its vicinity. If the institution plans to continue in existence for long, it needs the capacity to keep up with shifts in the frontier over time. It is noteworthy that very few of the institutions studied have these capabilities.

4. WHICH INSTITUTIONAL MODELS OFFER THE BEST VEHICLES FOR DELIVERING SERVICES?

The study identified five viable models for delivering services, based on the different needs of each clientele group. All five models emphasize information, but they differ depending on the answers to three key questions:

1. Is the primary clientele foreign investors or local exporters?

2. Will the program primarily provide concentrated, customized assistance to a few targeted firms or standardized assistance diffused across a large number of firms?

3. How important is sustainability?

The models identified by the study represent refinements of existing strategies rather than major modifications to A.I.D.'s trade and investment program. But at the same time they suggest a need to change some of the current assumptions and modify certain design elements currently in wide use, as further discussed below.

Export promotion and investment promotion require different services and different skills, and as a result should arguably be housed in different organizations. The same is true of

customized versus standardized studies, and of agricultural versus manufacturing firms. Five models were identified by the study that combine viability with effectiveness to serve these different groups.

1. Customized investment promotion, an independent private entity providing customized investment promotion support to potential foreign investors in target sectors, and relying on outside funding;

2. Standardized investment promotion, a government unit providing standardized, diffuse support to foreign investors, scaled down to the level of funds available within host government budgetary constraints;

3. Customized assistance to local exporters, an independent project implementation unit providing customized, targeted assistance to local firms, relying primarily on outside funding;

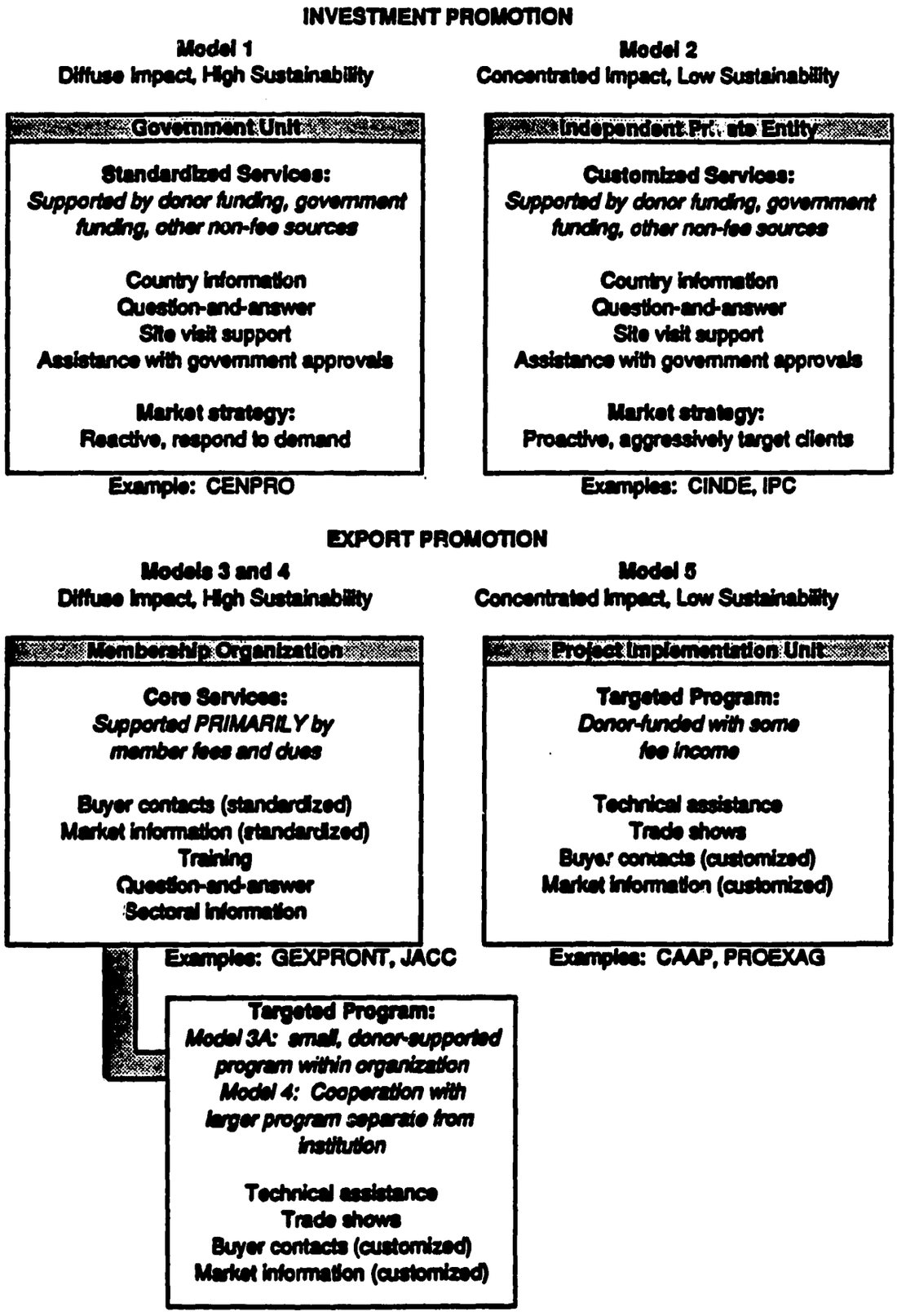
4. Standardized assistance to local exporters, a membership organization providing standardized, low-level support to local firms sustained by fees and membership dues, possibly in conjunction with a modest program of customized assistance financed by donor funds; and

5. Standardized and customized assistance to local exporters, a cooperative program between an independent project implementation unit and a membership organization, in which the former serves as a delivery mechanism for customized services offered to a targeted clientele within the membership and financed by donor funds.

Key features of these models are shown in Figure G-1, which summarizes the service mix, funding sources, and marketing strategy that are central to each model and gives examples of each drawn from the country case studies. The five models provide a range of options to fit differing target groups and varying levels of resource availability.

Models 2 and 4 can be structured for sustainability without a large and continuing infusion of donor funding. Models 1 and 3 imply reliance on outside funding for continuation of the program. These models should either be structured with a predetermined life span or provided with a permanent source of revenue that is not directly related to services (such as an endowment). Model 5 falls somewhere between the two: the standardized services provided by the membership organization can achieve sustainability but the customized services cannot.

Figure G-1. Viable Models for Investment and Export Promotion



The study was unable to determine which model has greater impact and offers a higher return, for two related reasons. First, most of the programs examined have been structured to provide a high degree of customized services to a relatively small number of firms, and most of them are also providing standardized services to a larger clientele. A.I.D. has tended to load customized services on top of a standardized service program, making it difficult to distinguish which service elements are responsible for the impact.

Second, none of the programs that rely most heavily on a diffuse service strategy (JACC, GEXPRONT, CENPRO) keeps a tally of exports or investments for which they claim credit. This failure is not evidence of sloppy management (or at least not entirely so). By their nature, programs following a diffuse strategy do not have sufficient contact with any given firm to make it feasible or appropriate to track their export performance. Even if the organization were to follow up one or two years later with a firm that had received, for example, the names of 10 possible buyers, the organization's ability to claim credit for any export gains made would be extremely limited. As further discussed later, this poses a problem for the accountability-conscious donor.

Although the lack of data prevents definitive comparison of concentrated and diffuse assistance strategies, the survey findings cast significant doubt on the assumption that intensive, customized services for a few lucky firms have a greater total impact than do standardized services diffused across a larger population of firms. As noted in the previous section, many of the services that garnered high praise from the assisted firms fell into categories suited to providing a standardized service to a large number of firms. Until further study is given to the question of how best to provide information services, it remains an open question whether customized services to a few firms or standardized services to many firms generate more total impact.

The lack of impact data inherent in diffuse assistance strategies is a disadvantage from the standpoint of the donors; these programs do not generate the proof of impact that donor agencies like to see (and to be able to show). Programs following the concentrated service model work intensively with a few targeted firms. They tend to maintain records on the performance of their clients over time, particularly if they are eager to keep donor funds flowing. They can argue that gains made are due to their assistance (although they generally cannot offer proof in a control group).

The bottom line is that the impact of low-intensity, diffuse-service programs may be as little or as great as that of

concentrated service models, and these programs may be much more cost-effective, but they cannot prove it.

What is excluded by the five models presented? On first view, it might appear that they include everything A.I.D. is already supporting, and more, but this is not the case. The models imply a need to modify A.I.D.'s assistance strategy for trade and investment promotion in several ways.

-- Decrease the emphasis on generating fee income;

-- Undertake more careful analysis of the implications of the technical expertise required by each institution for success;

-- Separate export and investment promotion programs; and

-- Develop a willingness to trade sustainability for short-term impact.

4.1 Is Greater Reliance on Fee Income Always a Good Thing?

Project designers have been somewhat cavalier in assuming that fees could and should be collected to improve institutional viability and performance. The study suggests that fees have a useful role to play but that fees are not an adequate source of revenues for sustainability, nor are increased fees necessarily conducive to better institutional effectiveness.

Fee income is highly desirable for institutions working with local firms (both membership organizations and independent project implementation units) as a means of rationing services, generating income, and, for membership institutions, building ties to their clientele. Fees do not provide an adequate basis for sustainability, however, because full-cost recovery fees would have to be unrealistically high. Of all the membership institutions studied, JACC has progressed most in charging reasonable fees, but the levels charged are far below full-cost recovery.[3] Although JACC and other membership groups can and

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[3]JACC currently charges 80 percent of the direct costs associated with each service, including the time of the professional and support staff directly associated with the service. This is admirable but very different from 80 percent of the true cost. The full cost would include, in addition to direct costs, a proportional allocation of the organization's total costs, including administrative overhead, expenses associated with activities that do not generate revenues (such as lobbying), and

should work harder at generating fees, it is not realistic to expect them to be able to cover the costs of lobbying and general promotion as well as institutional overhead from fees charged on specific services, particularly when the latter are expensive. If expensive services are strictly limited, and indirect services kept reasonably small, JACC should be able to sustain activities with fees plus membership dues, supplemented by some grant income.

Fee income is much less desirable and appropriate for investment promotion organizations, for several reasons. First, would these organizations have great difficulty in charging fees for much of what they do (collect cold calls?) without damaging their image and that of their countries.

Second, and perhaps more important, pressure to generate fees actually may interfere with their effectiveness.

-- A need to generate fees encourages investment promotion institutions to target the easy sectors (e.g., textiles in the Dominican Republic), not the new sectors on the frontier.

-- Many fee-generating schemes would interfere with the institution's credibility as an impartial source of reliable information for investors.

IPC, for example, is exploring the possibility of charging brokerage fees to free zones where they place investors. Leaving aside the practical problems associated with collecting such fees, this approach could well damage their ability to provide information on all of the free zones and arrange visits to several zones without showing favoritism.

These examples suggest the need to think much more carefully and realistically about fee income and its role in the service strategy and long-term viability of the institutions supported.

A related finding is the need to build in accountability to a specific clientele, whether or not fees are charged for services. The example of ProChile in Chile suggests that, even for public sector organizations, a management structure that

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professional downtime (time spent providing services for which fees cannot realistically be charged, such as brief phone consultations, time spent planning and managing the service, etc.). For JACC, the team calculated that full-cost recovery fees would have to be about three times higher than the current direct cost level now used to calculate fees.

provides for direct involvement by representatives of the private sector tends to improve performance.

The problem of private sector accountability is by no means limited to the public sector organizations. Membership organizations that are heavily dependent on A.I.D. financing tend not to be responsive to their membership. To avoid this danger, A.I.D. should accept a slower growth rate for services provided by these organizations, to ensure that they do not expand beyond the capability of their membership to control and finance their activities.

Both Chile and the Dominican Republic provide examples of power struggles between public and private sector interests over who will control an independent private entity. A.I.D. cannot realistically prevent such power struggles in investment promotion organizations, which by their nature serve a clientele that is not involved in management: potential foreign investors. But A.I.D. can ensure that any government victory in such struggles will be Pyrrhic by withdrawing funding.

4.2 Is In-House Technical Expertise Always a Realistic Goal?

With the exception of the independent project implementation unit, none of the organizational structures examined has proved adept at establishing and maintaining a high level of technical expertise. They tend to be staffed at the operational level by capable but inexperienced personnel with a high turnover rate. This lack of technical expertise is not a problem for investment promotion organizations, which serve a comparatively sophisticated clientele and can quickly train new employees in the local knowledge needed.

Lack of expertise is a problem, however, for export promotion organizations, which serve local firms needing technical assistance and buyer contacts. This situation has two alternative answers: (1) limit services to standardized services (such as referrals from published directories) requiring little expertise or (2) provide a mechanism to make additional technical expertise available to these institutions.

Production knowledge and buyer contacts tend to be highly sector-specific and expensive, therefore they should be targeted. As a result, they are best structured as separate, temporary, donor-supported programs rather than as permanent, membershipwide services wholly supported by fees. As commented previously, membership organizations have great difficulty in favoring subgroups within their membership.

Within export promotion, the areas of expertise required by local firms in the agricultural and manufacturing sectors are similar in type but different in content. Many local firms are likely to need technical assistance in production, for example, but the nature of the help needed by an avocado producer is very different from that needed by a textile firm. The breadth and specificity of technical and market information needed suggest that export promotion programs providing customized support for agricultural and manufacturing firms may need to be implemented separately, although standardized services can be provided to both by the same organization.

4.3 Can Membership Organizations Target Services?

The study found that membership organizations had particular difficulty in providing customized, concentrated services. Because these organizations depend on membership support, they face strong pressure to make their full service menu available to all of their membership. The combination of a highly differentiated membership (producing lots of different products) and technical needs that vary greatly by product is inconsistent with efficient provision of customized services. JACC, for example, has 33 "priority" products. Avocado growers are not willing to see their money used to provide technical assistance to pineapple growers, at least not if they do not have access to the same assistance.

Three solutions to this dilemma are represented by the three viable models presented for export promotion: (1) use a project implementation unit that is not answerable to a membership and can serve whatever audience A.I.D. defines; (2) seal customized, targeted services within a relatively small and separate program clearly labeled "donor-funded, not member-funded," or (3) provide customized services through a project implementation unit in cooperation with more widespread standardized services provided by a membership organization.

4.4 Can the Same Institution Do a Good Job at Both Export and Investment Promotion?

Several of the programs examined combine export and investment promotion (CINDE, for example, started as an export promotion program and then shifted to investment promotion and is now shifting back to give more emphasis to local firms). The study suggests that each organization should have a clear mandate to serve either foreign investors or local firms, but not both or at least not both with the same staff and program. The need to

separate the two is particularly great for the customized service model, but it also applied to standardized service strategies.

The two main reasons for separating the two have already been discussed previously.

1. Foreign firms need services and information different from those of local firms, so the gains from combining services for the two clientele groups are unclear. Unless the special information and assistance needed by local firms can be managed and provided by an outside source (such as the IESC), it will be difficult to manage the range of services required by the two different groups.

2. Each type of promotion requires a different level and type of technical expertise. Export promotion generates a much greater demand for technical expertise (including detailed knowledge of foreign markets) than does investment promotion, particularly when customized services are provided, and therefore requires a different and more experienced personnel base.

The need to separate the programs and provide a separate staff for each does not necessarily mean that parallel programs cannot be implemented within a single organization, although the gains from doing so are far from self-evident. Additional time is needed to determine whether CINDE's attempt to carry out these different functions through parallel but separate divisions within the same organization will prove effective.

It should be emphasized that the need for technical production knowledge is greater in the agricultural sector for both foreign and local firms. Whereas the technology for most manufacturing operations poses the same problems wherever it is applied, each country's climate, soil, and pest conditions raise special problems. Foreign firms are likely to encounter almost as many difficulties as local firms in introducing a crop to a new location, but their greater resources and experience base nonetheless mean that they have less need of assistance from an A.I.D.-supported institution.

4.5 So They're Not Sustainable, So What?

Three of the models presented are viable only as long as outside funding is provided. They can survive the withdrawal of A.I.D. funding, but only if another source of funding, such as an endowment or other donor support, replaces it. As a practical matter, a mission undertaking a program based on one of these

models must either build in such support or be willing to see its program wither away.

A private enterprise officer interviewed in one of the non-case-study countries suggested that sustainability was not an appropriate goal. He argued that ASIs have done their job when a more than sufficient number of export-oriented firms has been developed. Once this is achieved, the firms themselves will maintain pressure for policies favoring exports and attract new investors through private contacts. This argument is attractive.

It was argued earlier, however, that the promotional job is never done: there is always a new frontier for promotion of foreign investment and a new crop of local firms ready to graduate to the export market. This conclusion by no means implies that export and investment promotion programs are only worthwhile if they continue indefinitely. On the contrary, the study found that these programs can be justified economically on the basis of their short-term and immediate benefits alone, regardless of any later benefits provided from institution-building. This finding is fortuitous, because many of the programs will indeed cease to exist for all practical purposes the moment A.I.D. funding is withdrawn.

5. THE NEXT STEP IN IMPROVING A.I.D.'s TRADE AND INVESTMENT STRATEGY: QUESTIONS FOR FURTHER ANALYSIS

This study has highlighted several service models that appear to support potential exporters and foreign investors and shown that programs providing such support merit A.I.D. support, at least in a favorable policy environment. The next issue to be addressed is how best to provide the services identified as effective. In particular, the study raises three questions that deserve further attention:

1. What is the most cost-effective method to provide the information and other services identified as most important for export and investment promotion?

2. What is the appropriate balance between indirect services (particularly purely promotional activities such as advertising and cold-calling) and direct services?

3. Can the impact of diffuse service strategies be measured, and, if so, how does it compare with that of the concentrated service models?

A final issue is what to do when the policy environment is unfavorable. Here the question is not so much whether promotional institutions can be effective at bringing new firms into the net in such an environment--they can bring firms into the net, but they will jump right out again (or fail out, in the case of local firms); instead, the issue is whether the institutions studied, both membership organizations and independent private entities, are an appropriate mechanism through which to channel assistance aimed at changing the environment. To the degree that policies and the regulatory environment, not promotional programs, determine a country's success at building an export sector, this question may well be more important than the one addressed by thi' study.